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RESEARCH BULLETIN

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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Mission Statement

The CMA professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting.

Vision Statement

The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally.

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The Institute of Cost Accountants of India
12 Sudder Street, Kolkata - 700016

Foreword

I am in high spirits to bring forth the present volume of the Research Bulletin of the Institute. The publication contains well-researched and thought provoking articles on a variety of relevant issues for researchers, academicians and professionals.

India remained ahead of China to retain the tag world's fastest growing large economy withstanding several ups and downs, the spike in oil prices and global trade war like situation during 2018. Indian economy's roller-coaster ride during the year gone by was best captured by the GDP growth. Global factors such as sudden zoom in crude prices, strengthening US dollar, slowing growth in the wake of US-China trade war and the US Federal Reserve hiking interest rate for the fourth time in a year did take the toll on India's economy. The banking sector ruled the headlines in 2018. The year opened with India's biggest banking scam coming to light. Punjab National Bank said it had detected Rs.11,400 crore scam. Even the RBI-government tussle sent shock waves far and wide. The country's leading infrastructure finance company IL&FS defaulted on payments to lenders. It triggered panic among a large number of investors, banks and mutual funds associated with the company.

However, the economy witnessed a big positive development the progress made under the Insolvency and Bankruptcy Code. Good news for the economy is India's improved ranking on the World Bank's 'ease of doing business' report for the second straight year, jumping 23 places to the 77th position on the back of reforms related to insolvency, taxation and other areas. Collection of the Goods and Services Tax (GST) was quite impressive.

In this edition, a wide array of topics based on Indian Economy – Financial inclusion, Commodity Market, Taxation, Gig economy, etc. have been inserted. Hope this would encourage readers to board on a lifelong journey of learning and enriching their knowledge base.

CMA Amit Anand Apte
President
The Institute of Cost Accountants of India

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Chairman's Communiqué

The fourth industrial revolution or Industry 4.0 has become quite a buzzword. Economies across the globe are all set to adopt it and India is also treading the path in its own way. Industry 4.0 is a blend of advanced analytics, Big Data, Robotics & Automation, Artificial Intelligence, Internet of Things (IoT) and Process Digitization across the business value chain. Even, today's workforce looks very different than it did only ten years ago, and the "gig economy" promises to force even more changes. Freelance and contingent work is on the rise, slowly encroaching upon the traditional, long-term nine-to-five job. A whole breed of highly valued technology companies aren't building social networks or search engines, but rather reinventing entire industries by letting anybody offer up their labor, knowledge, or even their homes, in exchange for income. Although on-demand apps like Uber, Lyft, Handy, Task Rabbit and Deliveroo have been the most conspicuous examples of the rise of the gig economy.

The gig economy is supported and accelerated by the rise of technology and customers who expect goods and services to arrive faster and more flexibly than ever before. In an effort to meet these demands, businesses and governments need access to highly skilled professionals for short-term projects to drive innovation and rapid change. At the same time, workers are looking for work opportunities that offer greater flexibility and variety. Technology is the key enabler to facilitate the nature of supply and demand where available talent meets organizational need. Just as Japanese businesses famously revolutionized supply chains with the concept of just-in-time manufacturing and the dot-com revolution transformed the whole economy with e-commerce, the world of work is changing as businesses seek to rigorously manage costs and improve agility through a more flexible workforce.

I feel privileged to place before you the present volume of Research Bulletin, Vol.44, No. III. Our Research Bulletin mainly highlights on pragmatic research articles and has a much wider reader base consisting of academicians, researchers, industry professionals and practitioners.

This Bulletin comprises of articles on contemporary economic issues- Financial Performance of CPSUs, Investors' Awareness, Gig Economy, Commodity Market, Taxation, etc.

The readers are invited to tender their valuable feedback towards enrichment of Research Bulletin. Suggestions for improvement of this Bulletin shall be highly cherished.

CMA Dr. I. Ashok
Chairman, Journal & Publications Committee
The Institute of Cost Accountants of India

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Editor's Note

Greetings!!!

India's economy is gaining momentum due to the implementation of several recent noteworthy policies—such as the enactment of the long-awaited goods and services tax, Insolvency and bankruptcy code and many more; and the country is opening up more to foreign investors. However with rise in the quantum of finance, financial irregularities have also risen in terms of number and amount of money involved.

It is making a common investor getting suspicious about corporate investment and driving him away from the market. Although the institutional investment is on the rise, investment through small investors is declining. Irregularities on the part of corporate are threatening their own existence and stability of the global economy too. Measures must be taken to curb the menace to ensure legal, social, moral and ethical conduct of the corporate. The issue of Corporate Governance has got much of the attention in this regard. There is a need to create and spread more awareness about good corporate governance practices. However the scope of corporate governance should not be confined to just financial information disclosure. But it should also include corporate social responsibility that there conduct should not be detrimental to the environment and natural resources.

Good Governance is a dynamic and progressive concept with different meanings in context to different actors. Further, vivid political, social and economic milieu help in redefining its dimensions every moment. Hence, it is difficult to delimit the scope of the term and clearly mention its dimensions. Effective democratic forms of governance rely on public participation, accountability and transparency. India should be poised for an effective governance program, where professionals like CMAs can facilitate the Government by suggesting appropriate governance mechanisms and facilitate in apt decision-making.

It is our pleasure to launch the current volume of the *Research Bulletin, Vol.44 No.III, October, 2018* issue, an offering of the Directorate of Journal & Publications of the Institute. The Research articles incorporated here constitutes varied issues of socio-economic aspects. Thus our endeavour is to draw attention to the vitality in environmental, social, economical and market-related issues, so that the society can explore the surroundings, become accustomed to the change in an effective manner and can take decisions deliberately. Further look forward to present the next issue of Research Bulletin Vol.44 No.IV January 2019 which will be a Non-theme too.

We look forward to constructive feedback from our readers on the articles and overall development of the Research Bulletin. Please send your mails at *research.bulletin@icmai.in*. We thank all the contributors and reviewers of this important issue and hope our readers enjoy the articles.

Warm regards,

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A COMPARATIVE ANALYSIS OF FINANCIAL PERFORMANCE OF CENTRAL PUBLIC SECTOR UNDERTAKINGS (CPSUS) IN THEIR PRE (BEFORE) AND POST (AFTER) DISINVESTMENT TREND PERIOD

Uttam Ghosh

Abstract:

This Paper presents a detailed approach to comparative analysis of financial performance of CPSUs in their Pre and Post disinvestment Period and also has focused on economic reform and resulting disinvestment of PSEs in India and it also takes into consideration the effect of disinvestment of Public Sector. This study uses the Research based theory to examine the disinvestment in the various Spheres of the economy and also tried to check of Pre and Post disinvestment Performance of PSUs in term of efficiency analysis and many other indicators of the enterprise with help of case studies. This study helps in understanding the disinvestment of CPSEs which impact on Indian economics as well as budget deficit. Thus paper uniquely combines the theories and Practical approach for latest Policies and programme of the Government along with Pattern, trend and Process of investment of CPSEs. Thus the paper examines the financial operative efficiency level of PSUs, because it should be justified properly in carrying out the disinvestment process. The Present study will attempt to find out the problem to find out the Problem of loss making of various organizations of PSUs. Finally, this paper provide to study the comparative performance of CPSUs in Pre and Post disinvestment Period, the relative performance of some selective PSUs on their Disinvestment Period compared to other companies of same industry, all problems associated with governance in case of disinvested PSUs, the impression of Shareholder of PSUs about the effect on disinvestment.

Key Words:

Public Sector Undertaking (PSU), Centre Public Sector Enterprise (CPSE), Public Sector Enterprise (PSE), Public Private Participation (PPP) Model

1. Introduction

1.1 Concept of disinvestment Process of CPSUs

After independence when economic Planning was introduced India adopted the mixed economic system. The main feature of the mixed economic systems is the co-existence of Public sector and Private sector. The Industrial Policy Resolution of 1948 and 1956. Demarcated the areas of operation of public sector and private sector. There are several objectives for building up the Public Sector. The Objectives range from the building infrastructure economic development to generating investing resource for development by earning suitable returns. The motivation for expanding the Public Sector extends from the Theory of Commanding heights to the Provision of consumption goods at suitable rates.

It was earlier through that by the progressive expansion of the Public Sector. The country would be able to move towards the socialistic Pattern of Society which was sought to be achieved as a goal.

Investment and Disinvestment are two sides of the same coin, when we deal with investment management it is automatically encompasses disinvestment also, as what is the investment for one is disinvestment for another particularly in the secondary market if investment is an art/science the more so is the DISINVESEMENT PROCESS.

The government in July 1991 initiated the disinvestments process in India while launching New Economic Policy (NEP). The government has appointed the Krishnamurthy Committee in 1991 and Rangarajan Committee in 1992. Both committees has recommended disinvestment to fulfill objectives of the modernization of the Public Sector Through strengthening R & D initiating diversification / expansion programme retaining and reemploying of employers, funding genuine, needs of expansion widening capital market basis and mitigating fiscal deficit of the government.

The crucial shifts in the government policy for disinvestment of PSUs was mainly attributed to Poor performance of those enterprise and burden of the financing their requirements through budget allocation.

The government set-up a new Department of disinvestment in 1999 to establish a systematic policy approach to disinvestment which will increasingly emphasize strategic sales of identified PSUs.

1.2 Definition and Meaning of Disinvestment Process of CPSUs

The term “Disinvestment” is the opposite of the term “Investment”. Investment involves earning assets with help of money. Therefore investment refer to conversion of money or cash into securities, debenture, bonds or other claim of money. On the other hand in the case of disinvestment an earning asset is converted into liquid cash or disinvestment involve the conversion of money claims or securities into money or cash.

"Disinvestment" means the Sale of Share of PSUs by the Government. The shares of governments companies held by the government are curving assets as the disposal of the government. If those shares are sold to get cash. Then earning assets are converted into cash. So it is referred to as "DISINVESTMENT".

1.3 Difference between Disinvestment and Privatization

"Privatization" implies a change in ownership resulting in a change in management. But disinvestment need not always imply change in Management. Disinvestment as actually dilution of the sake of the government in PSEs. If the dilution is less than 50%. The government retains management even through disinvestment takes place. It is not privatized. But if the dilution is more than 50% there is transfer of ownership and managements. It will be called privatization. Thus disinvestment is wider than privatizations. Privatization implies disinvestment but disinvestment does not necessarily imply privatization. Only when disinvestment goes beyond 50% if implies privatization. The extent of dilution of the government's stake is determined as part of the policy of disinvestment.

1.4 Performance and Achievement of Disinvestment of CPSUs

The performance of PSUs can be judged by several efficiency criteria. However the financial performance assumes importance because one of the objectives of creating Pubic Sector Enterprises was to generate invest-able resources of development by the earning adequate returns. Due to performance/achievement of CPSUs, an ANNEXURE – 1 herewith enclosed on a statement of comparative trend analysis in the point of macro view of the performance of the 229 operating CPSEs.

It is not wise to judge PSUs by its financial performance because such enterprises are not always guided by the profit motive. Rather they are guided by broader socio-economic consideration. If necessary a Public enterprise can operate even if it is losing, the losses being meet from the government budget.

Another or comparative trend of the performance analyzes base on various factors of the companies like status, sector, group, date of incorporation, year of disinvestment percentage of disinvestment market capitalization and percentage of profit of pre-and-post investment it detail has given on ANNEXURE II.

Impart from financial performance one can judge the PSEs in terms of technical efficiency, allocative efficiency and dynamic efficiency. Technical efficiency is related to input output ratio or productivity input. Allocative efficiency is related to the corrections that need to be introduced to offset market failure leading to better allocation of resources than what will be decided by the price mechanism.

Dynamics efficiency relates to innovations or technological development. Even in relation to these criteria, the results in relation to Public enterprises are mixed. Current profit and/or current cost need not necessarily be the criterion appropriate for development. Merely because a unit is profitable, it does not qualify to continue in the Public Sector unless if serves a Social Purpose. Loss making unit need to be excluded from disinvestment if there are buyers who can make it profitable.

Performance / Achievements of disinvestment of CPSUs during the year 2014-15.

The Department of disinvestment has no plan or non-plan scheme. The entire budget of the department is under non-plan for payment of salary, wages, professional services and other administrative expenses etc. the Budget Estimate (BE) for financial year 2014-15 for the department is Rs. 50 crores and proposed BE for 2015-16 is Rs. 44 crore.

1.5 Government Announcement regarding disinvestment

Cabinet may be clear stake sale in 20 PSUs on 18th October, 2016 strategic sale plans includes or mix of profitable and loss making companies as under:

HOW THEY STACK UP * Figure in Rs. Cr. For 2014-15

Top Profit making PSUs Top losses making PSUs	
ONGC	17733
Coal India	13383
N T P C	10291
N M D C	6422
Power Finance	5959
Indian Oil	5273
Rural Electrified Corp	5260
BPCL	5085
Power Grid	4979
South Eastern Coalfields	3660
Total for Top 10	**78045**
Total for Profitable PSUs	130363

Top losses making PSUs	
BSNL	8234
Air India	5860
MTNL	2893
Hindustan Photo Film	2164
MRPL	1712
Hindustan Cables	933
STCL	413
Fertilizer & Chemical (Travancore Ltd)	400
Air India Eng. Services	390
Hindustan Fertilizer Corpn.	381
Total for Top 10	**23380**
Total Losses of all loses making PSUs	27360

The 10 most profitable PSUs allocated for nearly 60% of the Profit earned by the Profitable PSUs.

The 10 biggest loss markets accounted for 85% of the losing incurred by loss making PSUs

** Source: Pubic Enterprise Survey*

Their plan main themes there are:

- The aim is to ensure that these PSUs are run professionally and there is greater value in these entities, paving the way for the government to dilute its stake in the years ahead. It was a mix of profit and loss making entities.
- The government think-tank that firmed up the disinvestment Policy for all Narendra Modi government had recovered strategic sale in several PSUs. That would result in bringing down the centre's share in these entities to under 50%. It has argued this model will help maximize revenue while focusing on strategic sectors such as oil or segments where the government wants to avoid or dominant role of the private sector. As a result, the move to shed stake in container Corporation (Con cor) where all government holds nearly 57% stake. Through the "strategic sale" route was dropped Con cor control nearly three-forth, of the market and is seen to be a vital link to the government's effort to boost the logistic network. Sincerely BHEL is seen another strategic company although the government is not averse to selling stake in some of its arms.

  The push for disinvestment comes at a tank when the government is looking to bolster its finances.

  - <u>Budget – 2015</u>: Government expect to raise Rs. 69500/- Crore from disinvestment in 2015-16.
  - <u>Budget – 2014:</u> Government expect to raise Rs. 58425 crore from disinvestment in 20141-15.
  - <u>Budget -2013</u> : Government expected to raise Rs. 54000 crores from disinvestment in 2013-14
  - <u>Budget -2012</u>: Government expected to raise Rs. 30000 crore from disinvestment in 2012-13.
  - <u>Budget – 2011</u>: Government expected to raise Rs. 40,000 crore from disinvestment in 2011-12.
  - <u>Budet – 2010</u>: Government expected to raise Rs. 40000 crores from disinvestment in 2010-11.
  - <u>Social Sector Scheme to get proceeds from disinvestment.</u>
    The Government announced that with effect from 2009 are proceed from disinvestment would be channelized the National Investment Fund (NIF) and would be available in full as one time exemption for meeting capital expenditure of identified Social Sector Programme as decided by the Planning Commission / department of expenditure.
  - <u>Road Map for Disinvestment</u>: The government has announced its intentions of initially focusing on disinvestment small portion of in holding in listed PSUs where Public shareholding as less than 10% by way of follow-on Public offers.

In addition to the follow-on offers, the government also plans to list profitable PSUs having a net worth of more than 200 crore.

- Budget 2009: In the budget Finance Minister Mr. Pranab Mukherjee has provided for Rs. 1120 crores from disinvestment in 2009-10.
- Economy Survey 2008-09: The economic Survey tabulated in the Parliament by Finance Minister Mr. Pranab Mukherjee has stressed on the need to revitalize the disinvestment programme and plan to generate at least Rs. 25000/- Crores per year.

1.6 Issue related to Disinvestment

Before proceeding further let us first consider some issues relating to disinvestment. These issues are as flows;

1) WHY DISINVESTMENT?

There are two major reasons offered by the Government for disinvestment first one is to provide fiscal support and the other is to improve the efficiency of the enterprise. The fiscal support argument run as follows: Governments resources are limited. These resources should be devoted to areas of social priority such as basic health, family welfare, Primary Education and social economic infrastructure. More resources can be devoted to these priority areas by releasing resources locked up in non-strategic Public Sector enterprises. The second reasons for disinvestment are that it will be improve the efficiency of the working of the enterprise.

2) HOW MUCH DISINVESTMENT?

The second question with respect to disinvestment to be made in an enterprise obviously the level of disinvestment in our enterprise in any year should be derived from the large level of government ownership. In that enterprise over the medium terms. The target level of ownership could be 2 percent to ensure limited control over the special resolution brought in the general body of the meeting of the enterprise. 51 percent to have effective control and 100 percent for full ownership. The target level of disinvestment should be derived from the desirable level of public ownership in a unit.

These shares do not have market prices. Then how to determine the value of such shares? These are three methods to determine the value of shares.

i. NET ASSET VALUE METHOD
ii. PROFIT EARNING CAPACITY VALUE METHOD AND
iii. DISCOUNTED CASH FLOW METHOD.

3) HOW DISINVESTMENT?

The Third question is what should be process to be adopted for disinvestment? For this two things are required first in how to fine the valuation of shares and the second is find out model to be adopted for sale. If all the shares of PSUs are held by the government such shares are not sold in the market.

2. Review of Literature

The present study is centered on several other studies. Some of them have shed light on the performance of Disinvestment of the PSUs in term of return over the year. Some other papers which have described the comparative analysis among the PSUs for improve the performance, meet the fiscal deficit on market economic point of view, encouraging PPP model, Penetrating market discipline, Literature on those areas has contributed for this present study. Host and international of literatures are available centering on the problem, of present study.

- Flex Raj. j. (2012)-In his study Disinvestment in India:Trends, Problem and Prospect, has focused on economic reform and resulting Disinvestment of PSEs in India it also takes into consideration the effect of disinvestment of public sector. Disinvestment in the various spheres of the economy and also tried to check of Pre and Post disinvestment performance of the PSUs in term efficiency analysis and many other indicators of the enterprise with help of case studies.
- Devi Kabita S. and Gangadharan V. (2011)-In their studies Disinvestment of Central Public Sector Enterprise, have covered latest policies and programme of the government along with pattern, trend and process of disinvestment of CPSEs.
- Bajaj Pradip (2008)-In his study Disinvestment of India–I loss and you gain, has traces Privatization System across the globe through a historical perspectively looking at the Privatization models process adopted in different countries, it also include case studies and companies like BALCO Maruti, Hindustan Zinc, VSNL, Jesop, CMC etc.
- Tewari Sanjay (2006)–In his study Disinvestment of programmed in India, has the main purpose this edited volume to stimulate to readers to gain an insight into the problem of disinvestment management.
- Agarwal & Jadav (2006) In his study disinvestment of public sector in India, has give an account of privatization/disinvestment policy, procedure and performance of disinvestment Public Sector Enterprises in India.
- Basu P.K. (2005) – In his study Saving the Crown Jewel–A Guide to Privatization., has asked and answer the importance question that come both at the policy level and it is process of implementation that every citizen and Taxpayer wants to know in any part of world should be sell a profit making undertakings?.
- Mathur Vivek (2004)–In his study Disinvestment of PSEs.–Policies and challenges, has traced the philosophy and growth of PSUs in India and desirable recent policy

measure for the privatization. Hurdles being faced by the government in Gigantic task are also set for the same.

- Naib Sudhir (2004)–In his study Disinvestment of Indian Policies, problems Practices has mainly stated whether socialist or capitalist. Other industrialist so a developing service only encouraging and setup PSEs order to various remedy market failure, fight against monopolists, facilitate economic independent and allow planned development.
- Mishra R. K. Gita P, Navin B (2003) Privatization–In their studies Evolution of India thought, have contained the first of thought of privatization in India where is making, rapid strides changing the fundamental Indian economy.

3. Statement of Problems

Disinvestment: issues or problems

The disinvestment policy of the government has been criticized by the various groups both within the government and outside the government. Critics have raised several issues / problem in connection with the disinvestment policy. Some of these issues / problem are as follows:

i. Is the government a classification of 1999 into strategic and non-strategic sectors correct?
ii. Is it desirable to disinvestment profit making enterprise?
iii. What should be procedure for disinvestment public offer through the stock exchange or strategic sale to a private partner?
iv. Should disinvestment create private monopoly in place of monopoly?
v. What should be method of valuation of PSU before a bid for disinvestment is made?
vi. Should PSUs be allowed to participate in the bids for disinvestment of PSUs?
vii. How should the proceeds from disinvestment be utilized?
viii. How should be interest of the worker be safeguard?

"Disinvestment is the Sale of shares of PSUs by the government. The shares of the government companies held by the government are earning assets as the disposal of the Governments assets as the disposal of the government. It those shares are sold to get cash then earning assets to converted in to cash. So it is referred to as disinvestment. Disinvestment is actually delusion of the sake of the government in PSEs. If the dilution is less than 50% the government retain management even through disinvestment takes place. It is not a privatized. But if the dilution is more than 50% there is transfer of ownership and management. It will be called privatization.

ix. The extent of dilution of the government sake is determined as part of the policy of disinvestment.
x. The disinvestment policy of the government has been criticized by the various groups both within the government and outside government critics have raised several issues / problems in connection with the disinvestment policy.

xi. After disinvestment there should be examined the financial operative efficiency level of the PSUs. Because it should be justified properly carry out the disinvestment process. The Present study will attempt to find out the problems of the loss making of various organization of PSUs.

4. Aims and Objective of Research Study:

1.1 Main Aims and Objectives of Research Study:

The following are the main objective and aims of the disinvestment policy of the Government.

i. To reduce the financial burden on the government.
ii. To improve public finance
iii. To encourage wide shares of ownership.
iv. To Introduce competition and market discipline
v. To depoliticizes essential survive
vi. To help public enterprise upgrade their Technology to became competitive.
vii. To rationalize and retain their workforce.
viii. To build competence and strengthen their R&D.
ix. To initiate diversification and expansion programme.

Thus the disinvestment is aimed to reduces or mitigate fiscal deficits bring about a measure of economic stabilization to improve efficiency in public enterprises through structural adjustment initiated to improve their efficiency and productivity.

1.2 Analytical review of the Aim of Research Study

The study of the disinvestment of CPSUs is aimed at examining the follow:

i. To Analysis the objective disinvestment process in India
ii. To study the disinvestment process followed I India today.
iii. To examine the timing of disinvestment
iv. To bring out the significant of disinvestment process viz-a-viz budget deficit.
v. To bring the finding of study.

The new industrial policy prove that “In order to raise resources and encourage wide public participation a part of the government shareholding in the Public Sector would be offered to mutual fund financial institutions, General Public and Employees”. This is process for disinvestment in the public enterprise.

1.3 Analytical Review of Objective Research study

The following are the specifies objectives

Features	Description
Comparison	To Comparison Pre and post financial performance analysis of the CPSUs. For 10 years (i.e. 2006-07 to 2015-16) 5years for the pre and 5years is the post
Measurement	To Measure The Grown of disinvestment of CPSE over the above period
Examination	To Examine Investor perception regarding the disinvestment of CPSUs over Security Market
Evaluation	To Evaluate The realized performance of selected scheme of disinvestment of CPSUs on the basis of risk and return.
Assess Prospect	To Assess The disinvestment of CPSUs. In India and draw suggestion recommendation, conclusion, etc.
Scope of Research	To Scope of Further Research Various areas of disinvestment of CPSUs study can cover.

5. Test of Hypothesis

The study the fifth objective of the following hypothesis will be tested Applying Test for equality of two means paired. Suppose we have a random sample of paired of observation (x_1,y_1), (x_2, y_2), (x_3, y_3) ……(x_n,y_n) $_{x\ y}$ from a BIVARIATE NORMAL POPULATION. The values of x and y are non-correlated and no longer independent. It is required to test whether the means of x and y in the population are equal

i.e. H_o=NULL HUPOTHESIS = $(\mu_x = \mu_y)$

H_O = it is no significant difference in Net Profit Margin before (Pre) disinvestment of PSUs $((\mu_x)$ and after (post) disinvestment of PSUs(μ_y)
$= \mu_x - \mu_y$

H_1 = Alternative Hypothesis = it is significant in Net Profit Margin before (pre) of disinvestment of PSUs (μ_x) and Net Profit Margin after (Post) of disinvestment of PSUs (μ_y)
$= (\mu_x \neq \mu_y)$ or $(\mu_x > \mu_y)$ or $(\mu_x < \mu_y)$

For the test of this hypothesis we can use for the test statistics (t)

$$t = \frac{d}{s/\sqrt{n-1}}$$

let $d_i = x_i - y_i$ denote the difference in the value of x and y for i- th pair (I – 1,2…..n) where d and s denote respectively means and standard deviation of the difference d_i i.e.

$$d = \frac{\sum di}{n}$$

$$s^2 = \frac{\sum (di-d)2}{n} = \frac{\sum di^2}{n} - \left(\frac{\sum d1}{n}\right)^2,$$

n = No of observation

APPLICATION

For disinvestment process of Seven NAVARATNA COMPANIES as below:
(data collected from financial statement of various companies)

					Figure in peren	
Companies	BHEL	CIL	GAIL	IOC	NTPC	ONGC
Average net profit margin before (Pre) disinvestment fo PSUs (X)	13.366	21.6	11.773	1.8	17.39	28.3
Average net profit margin after (Post) disinvestment fo PSUs (Y)	4.6	21.984	6.818	3.069	15.22	25.298

Test whether there is any change in Average net profit margin after disinvestment process or programme of the PSUs

Finding of aforesaid test, that step should be required as follows:

i. This is a absolutely paired t-test.
ii. Data has been collected from various Navaratna Companies of Average Net Profit Margin before disinvestment (x) and after disinvestment (y) are not independent.
iii. But later are likely to be affected by the former i.e. μ_x and μ_y are co-related.
iv. Null hypothesis: H_o ($\mu_x = \mu_y$) there is no change in the Mean scores (net Profit Margin) before and after the disinvestment process/programme of PSUs (only Navaratna Companies).
v. Alternative Hypothesis: H_1 ($\mu_x \neq \mu_y$) i.e. there is change in mean scores.

<u>Calculation</u> for paired

								Total
X	13.366	21.6	11.773	1.8	17.39	28.3	12.337	
T	4.6	21.984	6.818	3.069	15.22	25.298	4.076	
d=X−Y	8.766	− 0.334	4.955	−1.269	2.17	3.002	8.261	3.643
d^2	76.84	0.147	24.552	1.61	4.708	9.012	68.244	185.113

$$d = \frac{3.643}{7} = 0.52 \quad S^2 = \frac{\delta^2}{n} - \left(\frac{d}{n}\right)^2 = \left(\frac{185.113}{7}\right) - \left(\frac{3.643}{7}\right)^2$$

$$= 26.44 - 0.2704 = 26.17$$

$$S = \sqrt{s^2} = \sqrt{26.17} = 5.11$$

Therefore t test formula, put the above values

$$t = \frac{\delta}{s/\sqrt{n-1}} = \frac{0.52}{5.11/\sqrt{7-1}} = \frac{0.52}{5.11/\sqrt{6}} = \frac{0.52}{5.11/2.45} = 0.25$$

Comment

Critical Region	Level	Tabulated Value	Degree of freedom	Observed value
at	1%	3.707	7	0.25
at	5%	2.447	7	0.25

Conclusion and final commence

Critical region at 1% level or 5% level of significance $|t| \geq 3.707$ or $|t| \geq 2.447$. Since observe value $|t| = 0.25$ is less than 3.707 or 2.447.

H_o = Cannot be rejected we conclude that there is no significant change in Mean Average net profit margin after disinvestment process or programme. Therefore Ho ($\mu_x = \mu_y$) or Null hypothesis = H_o ($\mu_x = \mu_y$).

Alternative hypothesis = H1 ($\mu_x \neq \mu_y$) = can be rejected due to not improved the position after the disinvestment process of PSUs by Central Government of India.

6. Proposed Methodology of Research Study

1.1 Nature and scope of work

All through a lot of papers on the performance of disinvestment is available, not many papers focus on difference factors having impact on macro point of view. That improved the performance of Budget deficit, economic growth, etc. Due to improvise sound policy of disinvestment. Steps are required regarding Reduce of financial burden, improved public finance, encourage wide share of ownership, introduce competition and market discipline, de-politicizes essential service. Public enterprise upgrade technology to became competitive rational and retain workforce build competence and strengthen of R&D, diversification and expansion programme i.e. why the present study begin with exploratory research. The period of study is for 10 years starting from 2006-07 to 2015-16.

1.2 Collection nature and analysis

The data for the study will be derived from secondary source. The secondary sources includes disinvestment of public sector undertaking, disinvestment commission incorporation of company affairs various agencies Record and regarding disinvestment, journals, Magazines, Bulletin, Publication of various research Agency like RBI, ISI,, etc. Besides usual statistical tools such as tables, percentage, graph, some simple statistics tool like correlation regression, test of hypothesis, and other quantative tools will be used for the analyzing data and arriving at the conclusion. Both time series data and cross sectional data will be collected and proceed for the analysis. For presentation and analysis of data software like MS-excel, SPSS and E-view will be used.

7. Plan of Work (chapter schemes)

In order to deal with the subject the study has yet to be divided into Twelve (12) Chapters comprising the following:

Chapter	Feature Based on disinvestment process of CPSUs.		Description When study will be made the following points must be consider
I	INTRODUCTION	*	• Historical Background • Definition and Meaning • Statement of Problem • Difference between disinvestment and privatization • Performance and achievement • Road Map • Present disinvestment policy • approach
II	CONCEPTUAL ASPECT AND ISSUES		• Government announcement regarding disinvestment • Issue related disinvestment • Limitation of the issue (critics)
III	THE OVERVIEW, AIM AND OBJECTIVES		• Performance and achievement • Aim and objectives
IV	LITERATURE OF REVIEW		• Review of literature, Article Books etc.
V	METHODOLOGY		• Nature and scope of work Lot of paper on performance of disinvestment CPSU. The study will cover selected 229 companies of CPSUs. Present study is to be conducted for the period of 2006-07 to 215-16. • Collection nature and Analysis of Data *The data for the study will be derived from secondary data of disinvestment performance of various organizations. Disinvestment commission, performance of CPSUs, company affairs, individual disinvestment companies. • Statistical tools such as Tables percentage, graphs, Charges. • Other simple statistical tools co-relation, regression, test of hypothesis and other quantative tools will be used for the analyzing data. Arriving at the conclusion both time series data cross sectional data will be collected and process for the data. • Software like MS-Excel, SPSS and E-view will be tested.

VI	EVALUATION, ANALYSIS AND APPRAISAL		• Evaluation of performance • Analysis of data by various statistical tools. • Appraisal of the all comparative study.
VII	FINDINGS		• Actual result find out • Analysis of objective • study of disinvestment process • examining of timing of disinvestment • budget deficit
VIII	RECOMMENDATION		• government policy toward the disinvestment • various committee will be appointed for he improved financial performance • Recommendation for arrange and adopted the module.
IX	SUGGESTION		• for betterment result • efficiency of disinvestment process • PPP Module adopted • Technology by upgrade
X	OVERALL RESULT AND BENEFIT		• Account of privatization • Economic reform and restructure of disinvestment • Philosophy and growth of CPSUs.
XI	CONCLUSION AND SCOPE OF FURTHER RESEARCH		• This study overcome the various problems • Various areas of disinvestment of PSUs study can cover
XII	EXTRA PART		• Reference • Annexure • Appendix • Bibliography • Index • List of Table, chart and graph • List of financial statement of organizations.

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8.4 Annexure I

ANNEXURE - I

Statement of comperative trened analysis in Point of Macro view of the Performance of the 229 operating CPSEs.)

	PARTICULARS	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
A.	No. of operting Enterprises (CPSEs)	230	227	226	217	214	213	217	220	225	229
B.	Total Gross Turnover (Revenue) Rs. In Crores	630704	744807	837275	964890	1096308	1271529	1244805	1498018	1822049	1943777
C.	Percentage change between previous year and currrent year of Total Gross turn over		1809	12.42	15.24	13.62	15.98	-2.10	20.34	21.63	6.68
D.	Capital Employed (R. Crores)	452336	504407	585484	661338	724009	792232	908007	1153947	1387821	1510373
E.	Percentage change between previous year and current year of Capital emplyed (%)		11.51	16.07	12.95	9.48	9.42	14.61	27.08	20.27	8.83
F.	Net worth (Rs. In Crores)	291828	341595	397275	454134	518485	583144	652973	709525	776261	851245
G.	Percentage change between perevious year and current year of Net Worth (%)		17.05	16.30	14.31	14.17	12.47	11.97	8.66	9.40	9.66
H.	Overall Net Profit & Loss (Rs. In Crores)	52943	64963	69536	81035	81274	83867	92203	92129	98246	115298
I.	Percentage change between previous year and current year of over all Net Profit & Loss (%)		22.70	7.04	16.54	0.30	3.20	9.94	-0.08	6.64	17.35
J.	Net profit & Loss (H/B) or over all P&L/total Gross turnover) or % of Net Profit. / Turnover	8.40	8.72	8.30	8.40	7.41	6.60	7.41	6.15	5.39	5.93
K	Profit of Profit making CPSEs (Rs. In crores)	61606	74432	76382	89581	91577	98458	108434	113944	125927	143559
L.	Profit makings CPSEs (No.)	139	143	160	154	160	158	157	158	161	149
L.1.	% of Profit Making (L/A) (%)	60	63	7.8	71	74.76	74.18	72.25	71.82	71.55	65.06
M.	Average Profit of profit making CPSEs (K/L)	443.21	520.50	477.39	581.69	572.36	623.15	690.66	752.81	782.15	963.48
N.	Loss of Loss incurring CPSEs	8522	9003	6845	8526	10303	14621	16231	21847	27683	28260
O.	Loss incurring CPSEs (No)	89	73	63	61	54	55	60	62	64	79
O.1.	Percentage of Loss of a Loss incurring O/A (%)	39	32	28	28	25	25.82	27.65	28.18	28.44	34.05

P.	Average Loss of loss incurring CPSEs N/O=0	95.75	123.33	108.65	139.77	190.80	224.94	270.52	352.37	432.55	357.72
Q.	Dividend (Rs. In crore)	15288	20718	21886	26819	28123	25501	33223	35700	42627	42701
R.	Retain profit (Rs. In Crore)	35835	41394	43435	50129	48429	54233	53820	51056	49741	58894
S.	Dividend Payout Ration (Q/F)	5.24	6.06	5.51	5.9	5.04	4.37	5.08	5.03	5.49	5.01
T	ROI										
	a) H/D	11.7	12.88	11.88	12.25	11.23	10.59	10.15	7.98	7.08	7.63
	b) R/D	7.92	8.21	7.42	7.58	6.69	6.84	5.92	4.42	3.58	3.9

* *Source: Performance of Public Sector Enterprise, Department of CPSE*

ANNEXURE – II

STATEMENT OF COMPARATIVE ANALYSIS OF 7- MAHARATNA's C.P.S.Es RELATING TO COMPANY PROFILE INCLUDING YEAR OF DISINVESTMENT, PERCENTAGE OF DISINVESTMENT AND GOVERNMENT HOLDING.

SL. No.	Name of the Company	Status of the Company	Sector	Group	Date of Incorporate	Year of Disinvest-ment	% of Disinve st-ment	Total of Dis'	Govt. Holdings (%)	Total % of Govt. Holding	% of Other holdings
1	Bharat Heavy Electronics Ltd [BHEL]	Maharatna	Manu-facturing	Heavy Engineering	1964	1991-92	20.52		79.48		
						1992-93	0.46		79.02		
						1994-95	11.28		67.74		
						2013-14	4.66	36.92	63.08	63.08	
2	Coal India Ltd [CIL]	Maharatna	Mining	Coal & Lignet	1973	2010-11	10.01		89.99		
						2014-15	10.34	20.35	79.65	79.65	
3	GAIL	Maharatna	Manufacturing	Petroleum (Refinery & Marketing	1984	1994-95	3.39		96.61		
						1998-99	3.62		92.99		
						1998-99	9.63		83.32		0.04
						1999-2000	15.98		67.34		
						2003-2004	10.00	42.62	57.34	57.34	
4	Indian Oil Corporation (IOL)	Maharatna	Manu-facturing	Petroleum (Refinery & Marketing	1964	1994-95	5.18		94.82		
						1998-99	11.16		83.66		
						1999-2000	1.50		82.16		
						2013-14	10.00		88.92		3.24
						2015-20	10.05		58.57		0.35
5	NTPC LTD	Maharatna	Electricity	Generation	1975	2009-10	5.00		84.50		10.50
						2012-13	9.50		75.00		
						2014-15	0.04		74.96		

6	Oil & Natural Gas Corpn Ltd	Maharatna	Mining	Crude Oil	1956	1994-95	0.63	99.37	
						1995-96	0.02	99.35	
						1998-99	14.03	85.32	
						2003-04	7.76	74.11	1.25
						2011-12	4.91	69.20	
7	Steel Authority of India (SAIL)	Maharatna	Manu-facturing	Steel	1973	1991-92	6.61	93.39	
						1992-93	7.30	86.09	
						1994-95	0.12	85.97	
						1995-96	0.14	85.83	
						2012-13	5.82	80.01	
						2014-15	5.00	75.01	

Source : Website of List of CPSEs
Website of Performance of Disinvestment

STATEMENT OF COMPARATIVE ANANYLIS OF 7- MAHARANTA's C.P.S.E.s RELATING TO MARKET CAPITALISATION (STOCK PRICE) AND PERCENTAGE OF PROFIT (BEFORE & AFTER DISINVESTMENT)

Market Capitalization of CPSEs as on 30/09/15

Sl. No	Company	Market Capitali-zation No. of Shares (in lakh)	BSE Closin g Price (Rs.)	BSE Total Market Capitali-zation	NSE Closing Price (Rs.)	NSE Total Market Capitali-zation	% of Profit (Ratio of Net profit to sales — Before Disinvestment [--] / After Disinvestment [--]) 2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	* 2015-16
		A	B	C=AXB	D	E=AxD								
1	BHEL	24476.00	205.55	5031041.80	205.550	5031041.80	11.97	13.12	14.46	14.5	12.78	8.43	4.58	0.8
2	Coal India Ltd (cil)	63163.64	326.50	20622928.46	327.600	20692408.46		21.57	21.63	23.63	25.41	21.96	19.06	19.86
3	GAIL	12684.77	302.10	3832069.02	302.300	3834605.97	11.79	12.56	10.97	8.91	8.35	8.37	5.07	3.39
4	Indiana Oil corporation (IOL)	24279.52	402.10	9762794.99	402.200	9765222.94	0.96	3.80	2.25	0.93	1.06	1.40	1.77	6.037
5	NTPC LTD	82454.64	123.75	10203761.70	127.750	10533580.26	19.56	18.68	16.56	14.76	19.06	15.10	14.17	12.55
6	Oil & Natural Gas Corpn Ltd.,	85554.90	227.50	19463739.75	227.350	19450906.52	25.35	30.59	28.96	32.67	25.12	26.24	18.45	24.01
7	Steel authority of India (SAIL)	41305.05	51.45	2125144.82	51.350	2121014.32	14.28	16.65	11.48	6.94	4.34	4.99	2.9	-14.08

Source : 1. Website of Performance of CPSEs
2. Individual Company performance i.e. Website of the List of the CPSEs.
* *3 month year (from 01.03.15 to 30.06.15)*

AN INSIGHT INTO INVESTORS' AWARENESS PROGRAMMES: WITH REFERENCE TO THE PROGRAMMES CONDUCTED BY SEBI

Parna Banerjee
Ram Prahlad Choudhary

Abstract:

The scope of social responsibility has been widening and it is not a mere philanthropy now. It has become an emerging trend not only for the corporate but for various other entities or institutions. The regulatory bodies in our country, monitoring various activities in micro and macro level on behalf of the Government, are also not out of it. They have taken various initiatives to maintain social responsibilities regarding the investors' education and protection and Investors awareness programmes (IAP) are one of them. In India, it is the most popular way to spread financial awareness which can reach a large section of people who are investors and major stakeholders of the society at large. Now, different regulatory and professional bodies like Securities Exchange Board of India (SEBI), Reserve Bank of India (RBI), Ministry of Finance (MOF), Ministry of Corporate Affairs (MOCA), Institute of Company Secretaries of India (ICSI) etc. are arranging these IAPs in all over India. Here, this study is concerning about the detailed research relating to IAPs conducted by Securities Exchange Board of India (SEBI) for spreading financial awareness among different categories of investors in India as a part of their social responsibility to protect investors' interest and the study also aims to focus on the success rate of these programmes and how that success can be identified in terms of improved financial awareness of the concerned investors and also the role of resource persons in that success of IAPs.

Key Words:

Financial Awareness, Resource Persons, Investors Awareness Programmes (IAP), Investors' Protection, Regulatory and Professional Bodies, Securities and Exchange Board of India (SEBI), Social Responsibility

Background:

According to Abraham Maslow, "What is necessary to change a person is to change his awareness of himself". It is true indeed. Awareness is that inner power of a person which leads him to let himself free from any kind of barriers originated from our societal structure and ensures a life full of enrichment, peace, prosperity and achievement. But, somehow, awareness is worthless without action. Whenever a person is aware of something he or she should portray it in his or her action. Moreover, it is crucial to spread the awareness to others for betterment of our society at large and the scope of spreading awareness is multidimensional. One of those major dimensions is to spread awareness among people on financial education, to enhance financial knowledge and to facilitate sound financial planning and decision making. In India, Investors awareness programmes (IAP) are one of those most popular initiatives that have been taken by different organisations to spread financial awareness which can reach a large section of people who are investors and major stakeholders of the society at large. Now, different regulatory and professional bodies like Securities Exchange Board of India (SEBI), Reserve Bank of India (RBI), Ministry of Finance (MOF), Ministry of Corporate Affairs (MOCA), Institute of Company Secretaries of India (ICSI) etc. are arranging so many of these IAPs in all over India. Here, this study is concerning about the detailed research relating to IAPs conducted by Securities Exchange Board of India (SEBI) specifically for spreading financial awareness among different categories of investors in India as a part of their social responsibility to protect investors' interest and also it is to show how much these initiatives are beneficial for the investors from their perspective.

In other words the study aims to focus on the success rate of these programmes and how that success can be identified in terms of improved financial awareness.

Brief Review of Literature:

H. Chen and R. P. Volpe (1998) surveyed 924 college students to show the state of their financial knowledge and relationship between their financial knowledge and literacy with their financial behaviour. The findings of the study indicated that the college students were financially illiterate and that knowledge gap restricted them from taking sound financial decision.

M. Abreu and V. Mendes (2005) suggested that investor's level of financial education, financial knowledge and information resources on markets and financial products had a significant impact on their financial planning and decisions taken by them on portfolio diversification.

Howard B. Slaughter Jr. (2006) intended to show by his study, the experiences of African-American high school students who had participated in a one week web-based financial literacy training residency program (WBFLTRP) on the campus of Robert Morris University (RMU) and the effectiveness of that web based training programme in enhancing the students' financial knowledge and decision-making ability.

M. Peng et al. (2007) investigated the impact of personal finance education on the high school and college students through a web-based survey. The result suggested that there were no significant impact of personal finance education course on the investment knowledge of the students, but financial experiences were found to be positively associated with better investment decisions of the students.

Lynne M. Borden et al. (2007) examined the influence of a financial education seminar on the attitudes, knowledge, and intentions of college students toward financial responsibility through a survey on 93 college students. A comparative analysis had been done to show the pre and post seminar effect on the financial knowledge and behaviours of the students. Findings suggested that the seminar significantly increased financial knowledge of the students. This study suggested that a seminar format may be a useful tool for reaching a larger section of college students.

R. Holzmann (2010) examined through a world bank led and Russia trust fund financed work programme to measure the financial capability and the effectiveness of financial education in low and middle income countries. The main purpose of the study was to measure the effect of financial education programs on knowledge enhancement, change in financial behaviour; and the extent to which that change in behaviour improves decision making and enhances the financial well-being of consumers.

Y.Imthiyas et al. (2015) has revealed in his study that it is essential that investment awareness programme needs to be effective and reach by e-governance services so that investors are aware of the investment product features and risk areas. The study also showed that Electronic Medias like TV, Radio and Internet is the vital catalyst in spreading awareness among individual investors belonging to Software/IT/ITES profession in Chennai, India.

S. Suganya (2017) has investigated the influence of financial literacy through micro credit schemes like saving skills, financial knowledge, borrowing skill and investment skill on economic empowerment of self-help group women members.

Research Gap:

From the above literature review, it is found that the previous research works are mainly focussed on the need and effectiveness of the financial education programmes on the financial literacy of different categories of investors for improvement in their financial decision and behaviour but in Indian scenario the research on the details of these IAPs conducted by several institutions and their effectiveness on investors' financial knowledge and perception have not been conducted so far.

Objectives of the Study:

Keeping view with the research gap, this study intends to concentrate on some main areas as its objective. The objectives are:

- to depict the overall trend of conducting IAPs throughout the last few years by SEBI in India as well as in West Bengal specifically.
- to show a trend of expenditures made by SEBI in conducting these programmes.
- to portray a clear picture about the number of resource persons involved in IAPs all over India also specifically in West Bengal and

their role in making these programmes effective.
- to judge the extent of success of these programmes in changing the financial awareness of select categories of investors.

Research Methodology:

Sample: Securities Exchange Board of India, being a regulatory body conducting Investors' Awareness Programmes has been chosen as sample to show the detailed study of the IAPs conducted all over India. Besides that, three categories of investors have been chosen as the sample for the study to justify its objectives to assess the role of resource persons in making the IAPs effective and also to judge the extent of success of these programmes in changing the financial awareness of select categories of investors such as School Children, College Students and Middle Income Group. This study focuses on the primary data collected from the above mentioned categories of investors participated in the Investor Awareness Programmes in the districts of West Bengal viz.- Kolkata, Hooghly, Howrah, North-24 Pargana and South-24 Pargana.

Data Source: Since the present study is exploratory in nature, both the primary and secondary data have been used for this study. Firstly, thorough data have been collected from the secondary source like SEBI Investors website to show the detailed study of IAPs conducted by SEBI for the several categories of investors like Middle Income Group, Young Investors (College students), School Children, Executives, Home Makers, Retirement Planning (Retired Persons) and Self Help Group in all over India and also these secondary have been used to depict a clear picture about the number of resource persons involved in IAPs all over India. Besides that, by using convenience sampling technique, some primary data have been collected through questionnaire survey for the selected categories of investors such as Middle Income Group, Young Investors (College students) and School Children, participated in such Investor Awareness Programmes conducted by SEBI in the districts of West Bengal viz.- Kolkata, Hooghly, Howrah, North-24 Pargana and South-24 Pargana to show the effectiveness of these programmes in changing financial awareness of the participants and the role of resource persons in making these programmes successful.

Use of Tools: Tables, charts and diagrams have been used to analyse the data collected from secondary source and percentage analysis done on the primary data to justify the objectives of the study.

Data Analysis & Findings of the Study:

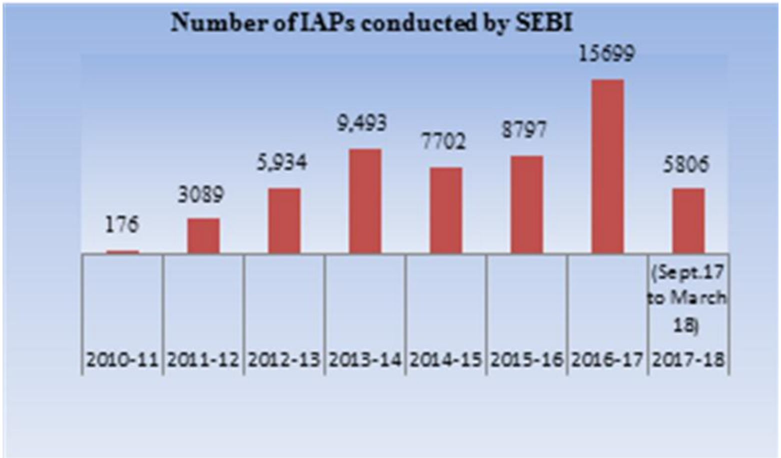
- **Trends in Awareness Programmes/Workshops Through Resource Persons Conducted by SEBI**

Table 1: Year Wise Details of Number of Awareness Programmes

2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (Sept.17 to March 18)
176	3089	5,934	9,493	7702	8797	15699	5806

Source: Annual Reports of SEBI

Figure 1: Number of IAPs conducted by SEBI



Source: Prepared by the Researchers

It can be observed from the table that as comparing with the initial years in later years there is a huge hike in number of IAPs all over India. It is highest in 2016-17 whereas in 2017-18 the numbers of programmes are lesser than the previous year but the time period in this case is limited to 7 months depending on the data availability.

Region Wise Number of Awareness Programmes/Workshops Conducted by SEBI for the year 2017-18

Table 2: Number of Awareness Programmes in Head Office (HO)

HO (SEBI BHAVAN, BKC)	TOTAL	MIDDLE INCOME GROUP	YOUNG INVESTORS	SELF HELP GROUP	EXECUTIVES	RETIREMENT PLANNING	HOME MAKERS	SCHOOL CHILDREN
MAHARASHTRA	1282	293	369	120	95	16	188	201
TOTAL	1282	293	369	120	95	16	188	201

Source: www.investor.sebi.gov.in

Table 3: Number of Awareness Programmes in Northern Region (NRO)

NRO	TOTAL	MIDDLE INCOME GROUP	YOUNG INVESTORS	SELF HELP GROUP	EXECUTIVES	RETIREMENT PLANNING	HOME MAKERS	SCHOOL CHILDREN
Chandigarh	60	43	16	1	--	---	---	--
Delhi	97	27	10	36	3	5	9	7
Jammu & Kashmir	194	85	24	22	6	4	38	15
Haryana	664	364	85	41	27	11	84	52
Himachal Pradesh	186	73	38	12	27	5	22	9
Punjab	227	156	20	12	8	6	17	8
Uttar Pradesh	1538	732	270	160	76	34	203	63
Uttarakhand	188	110	26	10	3	9	12	18
TOTAL	3154	1590	489	294	150	74	385	172

Source: www.investor.sebi.gov.in

Table 4: Number of Awareness Programmes in Eastern Region (ERO)

ERO	TOTAL	EXECUTIVES	HOME MAKERS	MIDDLE INCOME GROUP	RETIREMENT PLANNING	SCHOOL CHILDREN	SELF HELP GROUP	YOUNG INVESTORS
Andaman and Nicobar	7	2	2	1	--	2	--	---
Bihar	39	3	5	15	6	1	5	4
Jharkhand	185	4	48	94	7	8	16	8
Odisha	326	18	57	61	8	5	93	84
Tripura	4	3	--	--	--	--	--	1
West Bengal	150	13	26	61	2	2	12	34
TOTAL	711	43	138	232	23	18	126	131

Source: www.investor.sebi.gov.in

Table 5: Number of Awareness Programmes in Western Region (WRO)

WRO	TOTAL	EXECUTIVES	HOME MAKERS	MIDDLE INCOME GROUP	RETIREMENT PLANNING	SCHOOL CHILDREN	SELF HELP GROUP	YOUNG INVESTORS
GUJARAT	325	22	81	26	33	46	32	85

Source: *www.investor.sebi.gov.in*

Table 6: Number of Awareness Programmes in Southern Region (SRO)

SRO	TOTAL	EXECUTIVES	HOME MAKERS	MIDDLE INCOME GROUP	RETIREMENT PLANNING	SCHOOL CHILDREN	SELF HELP GROUP	YOUNG INVESTORS
Tamil Nadu	326	4	26	60	-	55	37	144
Puducherry	8	--	--	3	--	3	--	2
TOTAL	334	4	26	60	--	58	37	146

Source: *www.investor.sebi.gov.in*

The above tables (Table no. 2,3,4,5 and 6), containing the details of region specific number of IAPs, are showing the fact that SEBI has conducted highest number of programmes in the Northern region (specifically in Uttar Pradesh)of India during the period September 2017 to March 2018. In most of the cases highest numbers of programmes have been conducted with the Middle Income Group investors.

Now, more specifically in West Bengal also several programmes have been conducted by SEBI during the year 2017-18.The district wise details of such programmes gives a better idea of frequency and coverage of such programmes all over West Bengal.

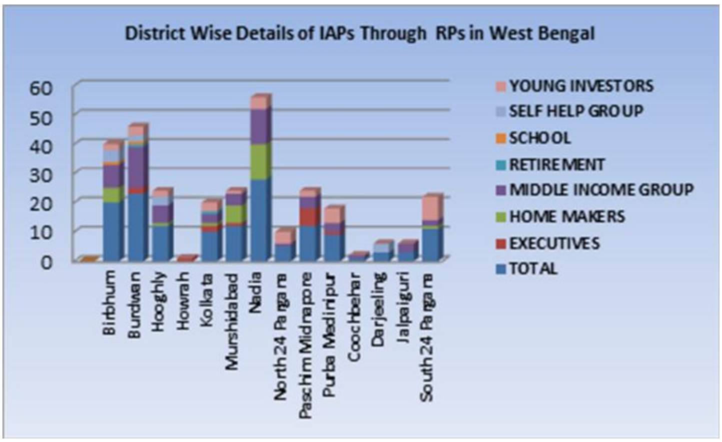
Table 7: District Wise Number of Awareness Programmes/Workshops Conducted by SEBI for the year 2017-18 in West Bengal

West Bengal Districts	TOTAL	EXECUTIVES	HOME MAKERS	MIDDLE INCOME GROUP	RETIREMENT PLANNING	SCHOOL CHILDREN	SELF HELP GROUP	YOUNG INVESTORS
Birbhum	20	---	5	8	--	1	4	2
Burdwan	23	2	---	14	1	1	2	3
Hooghly	12	--	1	6	---	---	3	2
Howrah	1	1	--	--	--	--	---	---
Kolkata	10	2	1	3	1	-	-	3
Murshidabad	12	1	6	4	---	---	----	1
Nadia	28	----	12	12	----	----	---	4
North 24 Pargana	5	---	----	1	--	---	---	4
Paschim	12	6	---	4	--	--	--	2

Midnapore								
Purba Medinipur	9	1	---	3	---	--	--	5
Coochbehar	1	---	--	1	---	---	---	----
Darjeeling	3	---	---	---	---	---	3	---
Jalpaiguri	3	---	---	3	---	--	--	--
South 24 Pargana	11	--	1	2	---	---	---	8
TOTAL	150	13	26	61	2	2	12	34

Source: www.investor.sebi.gov.in

Figure 2: District wise details of IAPs through RPs in West Bengal



In the above table the district Wise Number of Awareness Programmes / Workshops Conducted by SEBI for the year 2017-18 in West Bengal are shown where it is seen that the highest number (28) of awareness programmes have been organised by SEBI in Nadia district and in Burdwan it is 23. But district Howrah is left behind with only one awareness programme in the year 2017-18. 10, 12, 5 and 11 awareness programmes have been organised by SEBI in Kolkata, Hooghly, North 24 Pargana and South 24 Pargana respectively.

- **Trend of expenditures made by SEBI in conducting IAPs:**

The following table shows the expenditure made by SEBI regarding Investors' Education and grievance redressal as follows:

Table 14: Expenditures Made by SEBI on Investors' Education and Grievance Redressal

31.03.15	31.03.16	31.03.17
Rs. 1.15 crores	Rs. 3.08 crores	Rs. 5.28 crores

Source: Annual Accounts of SEBI for the year 2015-16 & 2016-17

It is seen from the above table the expenditures in organising IAPs or taking similar initiatives have been increased from 31.03.15 (1.15 crore) to 31.03.17 (5.28 crore).

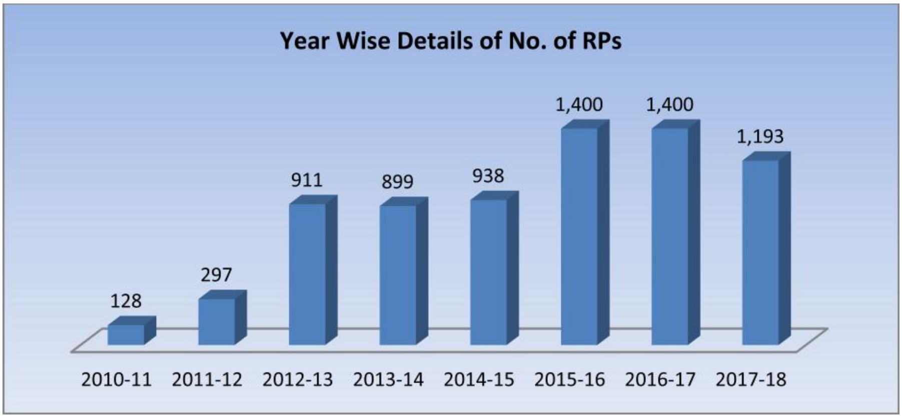
- **The number of Resource Persons involved in IAPs all over India**

❖ **Table 8:Year wise Details of No. of Empanelled Resource Persons (RPs)**

2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
128	297	911	899	938	1,400	1,400	1,193

Source: Annual Report of SEBI for 2014-15, 2015-16, 2016-17& SEBI Investors Website

Figure 3: Year wise details of No. of RPs



Source: Prepared by the Researchers

❖ ***Region Wise Details of No. of Empanelled Resource Persons in 2017-18***

Table 9: No. of RPs in ERO

ERO	NO. OF EMPANELLED RESOURCE PERSONS
Assam	44
Bihar	52
Jharkhand	40
Manipur	04
Meghalaya	03
Mizoram	01
Odisha	56
Tripura	09
West Bengal	40
Total	249

Source: www.investor.sebi.gov.in

Table 10: No. of RPs in NRO

NRO	NO. OF EMPANELLED RESOURCE PERSONS
Chandigarh	12
Delhi	47
Jammu & Kashmir	43
Haryana	85
Himachal Pradesh	24

Punjab	51
Uttar Pradesh	241
Uttarakhand	00
Total	503

Source: www.investor.sebi.gov.in

Table 11: No. of RPs in SRO

SRO	NO. OF EMPANELLED RESOURCE PERSONS
Karnataka	49
Kerala	54
Puducherry	00
Tamil Nadu	58
Total	161

Source: www.investor.sebi.gov.in

Table 12: No. of RPs in WRO

WRO	NO. OF EMPANELLED RESOURCE PERSONS
Goa	05
Gujarat	62
Maharashtra	124
Madhya Pradesh	50
Rajasthan	39
Total	280

Source: www.investor.sebi.gov.in

It is being seen from the above tables that number of empanelled resource persons recruited by SEBI showing almost an increasing trend over the past few years. More specifically the region wise details of the resource persons are showing that the NRO has the highest number of resource persons (503) as compared to other regions. While ERO has 249 resource persons the other two regions like WRO is having 280 resource persons and SRO has 161 resource persons in the year 2017-18.

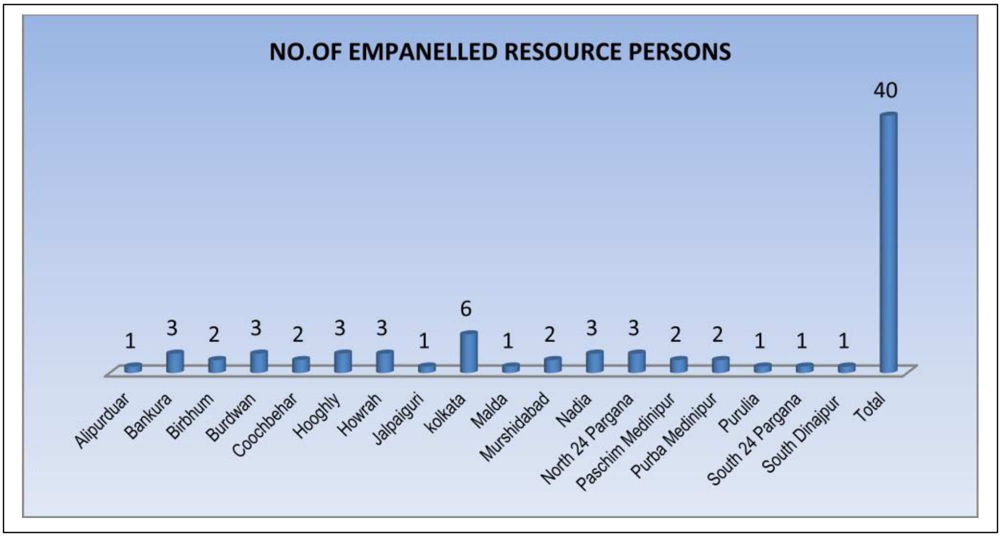
Here also the district specific data of West Bengal regarding the number of empanelled resource persons involved in IAPs conducted by SEBI shows specific details for better understanding their involvement in such programmes.

Table 13: District wise Details of No. of Empanelled Resource Persons in West Bengal

DISTRICTS IN WEST BENGAL	NO. OF EMPANELLED RESOURCE PERSONS
Alipurduar	01
Bankura	03
Birbhum	02
Burdwan	03
Coochbehar	02
Hooghly	03
Howrah	03
Jalpaiguri	01
kolkata	06
Malda	01
Murshidabad	02
Nadia	03
North 24 Pargana	03
Paschim Medinipur	02
Purba Medinipur	02
Purulia	01
South 24 Pargana	01
South Dinajpur	01
Total	40

Source: www.investor.sebi.gov.in

Figure 4: District wise details of No. of RPs



Source: Prepared by the Researchers

- **Role of Resource Persons in making IAPs effective:**

Null Hypothesis 1: The resource persons do not have any significant role in making the IAPs effective.

Now, from the questionnaire survey feedbacks of the respondents have been collected to analyse the perception of them regarding the role of resource persons behind the success of the IAP. The following are the statements against which respondents have given their response:

(a) The deliberation of resource persons plays an important role behind the success of IAPs

Category of Respondents	Agree & Strongly Agree (%)	Neither Agree Nor Disagree (%)	Disagree & Strongly Disagree (%)
School Children	85.71	10.72	3.57
College Students	66.67	26.67	6.66
Middle Income Group	50	33.33	16.67

Source: Post Programme Questionnaire Survey

Post Programme survey has been done on 28 school children and most (85.71%) of them has agreed with the fact that the deliberation of resource persons plays an important role behind the success of IAPs.66 college students have been surveyed in the Post Programme scenario and nearly 67% of them have been agreeing with the fact. Whereas, out of 30 existing investors like middle income group, 50% have agreed that the effective deliberation of Resource Persons are very vital for successful.

(b) The Resource persons are very much dedicated towards their deliberation and spreading financial awareness which is also very crucial for the effectiveness of the IAPs.

Category of Respondents	Agree & Strongly Agree (%)	Neither Agree Nor Disagree (%)	Disagree & Strongly Disagree (%)
School Children	82.14	14.29	3.57
College Students	93.33	Nil	6.67
Middle Income Group	58.33	25	16.67

Source: Post Programme Questionnaire Survey

Here also most of the school children (82.14%) have agreed with the fact that the resource persons are very much dedicated towards their deliberation and spreading financial awareness which is also very crucial for the effectiveness of the IAPs whereas 14.29% of them remained indecisive regarding the fact. 93.33% of the college students also have been agreeing with the fact. Whereas out of 30 respondents 58.33% of the existing investors like middle income group have agreed that the resource persons are very much dedicated towards their deliberation and spreading financial awareness which is also very crucial for the effectiveness of the IAPs but 16.67% of them have denied the fact and 25% of them remained indecisive about the fact.

(c) The sound knowledge of resource persons about financial planning and other financial matters made their deliberations more effective to the respondents.

Category of Respondents	Agree & Strongly Agree (%)	Neither Agree Nor Disagree (%)	Disagree & Strongly Disagree (%)
School Children	85.71	10.72	3.57
College Students	86.67	13.33	Nil
Middle Income Group	50	50	Nil

Source: Post Programme Questionnaire Survey

Here also most of the school children (85.71%) have agreed with the fact that the resource persons are very much dedicated towards their deliberation and spreading financial awareness which is also very crucial for the effectiveness of the IAPs. 86.67% of the college students also have been agreeing with the fact. Whereas out of 30 respondents 50% of the existing investors like middle income group have agreed that the resource persons are very much dedicated towards their deliberation and spreading financial awareness which is also very crucial for the effectiveness of the IAPs and 50% of them remained indecisive about the fact.

(d) The good communicative skill and fluency in local languages is very important for increasing the efficiency of their deliberations.

Category of Respondents	Agree & Strongly Agree (%)	Neither Agree Nor Disagree (%)	Disagree & Strongly Disagree (%)
School Children	89.29	7.14	3.57
College Students	46.67	33.33	20
Middle Income Group	75	25	Nil

Source: Post Programme Questionnaire Survey

Here also most of the school children (89.29%) have agreed with the fact that the good communicative skill and fluency in local languages is very important for increasing the efficiency of their deliberations. 46.67% of the college students also have been agreeing with the fact but over 30 % of them have not given any decisive answer or simply avoided the answer and 20% of them have denied the fact. Whereas out of 30 respondents 75% of the existing investors like middle income group have agreed that the good communicative skill and fluency in local languages is very important for increasing the efficiency of their deliberations and rest 25% of them remained indecisive about the fact.

(e) Proper training programme should be arranged by the authorities to ensure more enriched deliberations from the resource persons in the IAPs

Category of Respondents	Agree & Strongly Agree (%)	Neither Agree Nor Disagree (%)	Disagree & Strongly Disagree (%)
School Children	42.86	39.28	17.86
College Students	86.67	13.33	Nil
Middle Income Group	83.33	16.67	Nil

Source: Post Programme Questionnaire Survey

Here 42.86% of the school children have agreed with the fact that the proper training programme should be arranged by the authorities to ensure more enriched deliberations from the resource persons in the IAPs whereas almost 40% of the students remained confused about the fact regarding necessity of training programme of the resource persons. On the other hand, 86.67% of the college students and 83.33% of the existing investors like middle income group also have been agreeing with the fact that proper training programme should be arranged by the authorities to ensure more enriched deliberations from the resource persons in the IAPs.

So, as per the responses given by the selected categories of investors it is evident that the resource persons have a significant role in increasing the success rate of the IAPs i.e. the null hypothesis 1 is rejected.

- **Effectiveness of IAPs in changing the Financial Awareness of the Investors:**

Now, another aspect is that whether these huge costs are utilised in optimum capacity or scope of monetary wastages are there. The utilisation of these expenditures only lies in the effectiveness of these programmes to the target groups i.e. the general public of different backgrounds and age groups as a whole. So, if the participants of these programmes are feel benefited after attending such programmes then only it can be said that the expenditures made by the concerned authorities in regard of protecting investors' interest are justified. Through post programme questionnaire survey the responses of the respondents of different age group and background are analysed which will help to take decision about the success rate of these kinds of programmes as well as the assessment of maintenance of social responsibility (i.e. protecting investors; interest or making them financially aware) of the organising regulatory and professional authorities.

Null Hypothesis 2: IAPs have no impact in changing the financial awareness of selected categories of investors.

Through questionnaires the responses of the three categories of respondents have been analysed to show whether these kinds of programmes are effective or not. The following is the statement and its responses on the basis of which the effectiveness of the programme can be judged.

Statement: After attending Investors' Awareness Programme my perception regarding financial planning and investment decisions has changed a lot.

Table 15: Responses of different categories of investors after attending the IAPs

Category of Respondents	Disagree& Strongly Disagree	Neither Agree Nor Disagree	Agree& Strongly Agree
School Children	82.76%	10.34%	6.90%
College Students	92.42%	4.55%	3.03%
Middle Income Group	96.67%	Nil	3.33%

Source: Post Programme Questionnaire Survey

Now, from the above table it is clear that most of the respondents in each of the three categories have agreed to the fact that after attending Investors' Awareness Programme their perception regarding financial planning and investment decisions has changed a lot which in turn replicates the success rate of those IAPs. So, here also the null hypothesis is rejected.

Conclusions & Recommendations:

From the above observations it can be said that the IAPs conducted by SEBI definitely have impact to an extent on improving the financial awareness of the investors and resource persons have a significant role in making the IAPs effective. Though so many programmes have been conducted so far by SEBI throughout India, still there should be an increase in the number of programmes in rural and urban areas of the country as those people are often financially exploited due to their unawareness or sometimes information gaps can be a huge obstruction behind their inability to take sound financial decision. Constant follow up is needed in these types of programmes to become more effective.

Limitations of the study:

The secondary data have been collected only on the basis of the data available in the SEBI website so data discrepancy and unavailability to some extent is one of the problems of the study. Besides that, in case of primary data survey biased response or no response on the part of the selected respondents specifically in case of existing investors in the post programme scenario is the main limitation of this study. Moreover the perception expressed by the respondents may not be correct or actual state of affairs. The area selected for collecting primary data through questionnaire survey is limited as it is confined to only five districts of West Bengal- Kolkata, Howrah, Hooghly, North 24-Pargana and South 24- Pargana.

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FINANCIAL INCLUSION IN INDIA – CONTEMPORARY ISSUES AND CHALLENGES

Samta Jain

Abstract:

Financial inclusion has received the attention of researchers and policy makers around the world. It has been a widely accepted fact that for sustainable growth and development of an economy, all the sections of the society must be brought under the aegis of the regulatory financial system. Broadly speaking, financial inclusion is understood as access to formal financial services- savings and deposit services, credit & transfer, insurance and pension services, for marginalized and under privileged sections of society. Financial inclusion bridges the gap between rich and poor. It helps to channelize money-flow to the economy.

Financial inclusion efforts do have a multiplier effect on the economy as a whole through higher savings pooled from the vast segment of the bottom of the pyramid population by providing access to formal savings arrangement resulting in an expansion in credit and investment by banks. The present study attempts to bring out various initiatives which have been undertaken by the RBI, the government as well as the corporate to achieve universal financial inclusion. This paper also highlights several ambitious projects started by private corporate in order to bring disadvantaged segments of the society under the umbrella of formal financial system. The present study highlights various challenges to implementation of measures undertaken and how technology driven initiatives can be of great significance in making banking and financial services a public good which hitherto catered to the needs of the upper strata of the society. To achieve complete financial inclusion and robust economy there is a dire need of change in the outlook of banks and financial institutions. They need to pursue financial inclusion policy whole heartedly as a profitable business opportunity and not social or regulatory obligation which consequently makes their efforts half-hearted.

Key Words:

Financial Inclusion, Financial Services, Information and Communication Technology

Introduction

Financial inclusion, in the wake of global financial crisis2008, has garnered the interests of various stakeholders across the globe. Broadly speaking, financial inclusion is understood as access to formal financial sector for marginalized and under privileged sections of society.

Formal finance deprived sections of society have come upfront of public discourse in recent years. Financial Inclusion is one of the major tools to foster economic development in a country (Sharma and Sachdeva, 2014). Access to finance from formal financial institutions by marginalized and low income strata of society is imperative for poverty alleviation on one hand and to economic development on the other (Gandhi, 2013). The importance of an inclusive financial system is widely recognized not only in India, but has become a policy priority in many countries (Rao and Bhatnagar, 2012). Financial access can truly lift the financial condition and standards of life of the poor and the disadvantaged.

In the early 2000s, as it became evident that the benefits of financial sector reforms, being implemented since 1991, were not percolating down to the bottom of the pyramid, the RBI and the Government of India, began to realize the significance of access to formal financial services and products for achieving sustainable and stable inclusive growth in 2005(Ananth and Oncu Sabri, 2013).

Payment System (PS) has become a critical component of financial inclusion for bringing the unbanked into the formal banking channels, particularly as we move towards the second phase of financial inclusion that aims to cover the villages with a population of less than 2000.

RBI has been continuously encouraging the banking sector to expand the banking network both through setting up of new branches and also through BC model by leveraging upon the information and communication technology (ICT)(Rao & Bhatnagar, 2012).

Why Financial Inclusion?

Financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of the rural population and plays its own role in the process of economic development. Further, by bringing low income groups within the perimeter of formal banking sector; financial inclusion protects their financial wealth and other resources in exigent circumstances. Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit.

The policy makers have been focusing on financial inclusion of Indian rural and semi-rural areas primarily for three most important pressing needs:

1. Creating a platform for inculcating the habit to save money – The lower income category has been living under the constant shadow of financial duress mainly because of the absence of savings. The absence of savings makes them a vulnerable lot. Presence of banking services and products aims to provide a critical tool to inculcate the habit to save. Capital formation in the country is

also expected to be boosted once financial inclusion measures materialize, as people move away from traditional modes of parking their savings in land, buildings, bullion, etc.

2. Providing formal credit avenues – So far the unbanked population has been vulnerably dependent on informal channels of credit like family, friends and moneylenders. Availability of adequate and transparent credit from formal banking channels shall allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. A classic example of what easy and affordable availability of credit can do for the poor is the micro-finance sector.

3. Plug gaps and leaks in public subsidies and welfare programmes – A considerable sum of money that is meant for the poorest of poor do not actually reach them. While this money meanders through a large system of government bureaucracy much of it is widely believed to leak and is unable to reach the intended parties. Government is therefore, pushing for direct cash transfers to beneficiaries through their bank accounts rather than subsidizing products and making cash payments. This laudable effort is expected to reduce the government's subsidy bill (as it shall save that part of the subsidy that is leaked) and provide relief only to the real beneficiaries. All these efforts require an efficient and affordable banking system that can reach out to all. Therefore, there has been a push for financial inclusion.

According to the *United Nations* the main aim of inclusive finance are as follows:

- Access at a rational cost of all households and enterprises to the range of financial services for which they are "bankable," plus savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and global remittances.
- Sound institutions, guided by appropriate internal management systems, industry performance values, and performance supervising by the market, as well as by significance prudential principle.
- Financial and institutional sustainability as a means of providing right to use financial services over time.
- Multiple providers of monetary services, wherever possible, so as to bring lucrative and an ample options to customers.

Other Objectives of Financial Inclusion

There have been numerous objectives related to the call for financial Inclusion such as:

1. *Economic Objectives*: For the impartial growth in all the segments of the society leading to a diminution of disparities in terms of income and savings the financial inclusion can serve as a rumble for

the underdeveloped and developing nations.

2. *Larger Market for the financial system*: To serve the requirements and need of the large section of society there is an insistent need for the larger market for the financial system which opens up the opportunity for the new players in the financial sector and can lead to the growth of banking sector also.
3. *Political Objectives*: There are certain other political objectives which can be achieved with the wider inclusion of lower strata in the society and an effectual direction can be given to the government programmes.
4. *Social Objectives*: Poverty Eradication is considered to be the major solitary objective of the financial inclusion scheme since they viaduct up the gap between the weaker sections of society and the sources of livelihood and the means of income which can be generated for them if they get loans and advances.
5. *Sustainable Livelihood*: Once the weaker section of society got some money in loan form they can start up their own business or they can support their education through which they can sustain their livelihood. Thus financial inclusion can turn out to be a bang for the low income households.
6. *Mobilization of Savings*: If the weaker sections are provided with the facility of banking services the savings can be mobilized which is usually piled up at their households and can be efficiently used for the capital formation and growth of the nation

The history of financial inclusion in India is actually much older than the formal adoption of the objective. The nationalization of banks, Lead Bank Scheme, incorporation of Regional Rural Banks, Service Area Approach and formation of Self-Help Groups - all these were initiatives aimed at taking banking services to the masses. The brick and mortar infrastructure expanded; the number of bank branches multiplied ten-fold - from 8,000+ in 1969, when the first set of banks were nationalized, to 99,000+ today. Despite this wide network of bank branches spread across the length and breadth of the country, banking has still not reached a large section of the population. The extent of financial exclusion is staggering. Out of the 600,000 habitations in the country, only about 36,000+ had a commercial bank branch. Just about 40 per cent of the population across the country has bank accounts. The proportion of people having any kind of life insurance cover is as low as 10 per cent and the proportion having non-life insurance is abysmally low at 0.6 per cent. People having debit cards comprise only 13 per cent and those having credit cards only a marginal 2 per cent of the population.

Financial inclusion efforts do have a multiplier effect on the economy as a whole through higher savings pooled from the vast segment of the bottom of the pyramid (BoP) population by providing access to formal savings arrangement resulting in an expansion in credit and investment by banks. Deeper engagements of the BoP/under-banked population in the economy through the formal financial system could lead to improvement of their financial conditions and living standards, enabling them to create financial assets, generate income and build resilience to meet macro-economic and livelihood shocks.

Definitional Framework

As per the Rangarajan Committee report (2008), Financial Inclusion is defined "as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost".

Financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products (The Committee on Financial Sector Reforms, Chairman: Dr. Raghuram G. Rajan).

According to World Bank's Global Financial Development Report 2014, financial inclusion is the proportion of individuals and firms that use financial services.

Global Partnership for Financial Inclusion (GPFI), a forum of G20, defined financial inclusion as "a state in which all working age adults have effective access to credit, savings, payments and insurance from formal service providers."

Dr. K.C. Chakrabarty, former Deputy Governor, Reserve Bank of India defined financial inclusion as "the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream institutional players."

The RBI has defined financial inclusion as the access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost, in a fair and transparent manner by mainstream institutional players.

The World Bank Global Findex's definition: "Someone with an account at a bank, credit union, another financial institution (e.g. cooperative, microfinance institution), or post office, and includes those with debit cards" (Demirguc-Kunt andKlapper, 2012).

IMF financial access survey defines financial inclusion as minimization of financial exclusion arising from market or government failures.

Financial Inclusion Process

Financial inclusion has been and continues to be at the center of the policy priority of the country. With the passage of time the means of achieving deeper and sustainable financial inclusion has shifted towards innovative methods and adoption of technology-led products.

Financial inclusion as a concept is very topical these days. The term financial inclusion is not new in Indian context. But the moment gained momentum in 2005 when it was introduced by K. C. chakraborty, the chairman of Indian Bank. Mangalam village in Puducherry set the precedent for other villages to follow, where all households were given access to all financial services. KYC norms were relaxed for those intending to open basic bank accounts and banks were advised to issue general credit cards (GCCs) to the poor. In 2006, commercial banks were permitted by the RBI to harness the services of non-government organizations (NGOs/SHGs), micro-finance institutions and other civil society organizations as mediators for providing banking, financial and monetary services. These mediators can act as either business facilitators or business correspondents on behalf of commercial banks. By 2020, the RBI foresees to open approximately 600 million new customer's accounts and service them through a multiplicity of channels leveraging IT. On the other hand, illiteracy, ignorance, unawareness of financial products and services, low income savings on demand side and lack of adequate infrastructure, unfriendly attitude of financial institutions towards poor and less resourceful sections of the society on supply side continue to be major hurdles to financial inclusion in many Indian states and there is paltrily authorized and monetary arrangement.

In India, Financial inclusion has had been accomplished in different stages (Gwalani & Parkhi, 2014).

First Phase (1960 – 1990)	Second Phase (1990 – 2005)	Current Phase (2005 onwards)
Transmitting credit to underprivileged sections of society	Substantial financial sector reforms to bolster financial institutions	Moving to complete financial inclusion and financial deepening.

In the first phase, banks were nationalized in 1969 for the purpose of adjunct institutional finance. The government undertook several measures to improve financial delivery through cooperatives and by nationalizing banks (Gwalani & Parkhi, 2014). Various innovative programs were launched to generate self-employment and rural development. As a result, the number of branchs of commercial and regional rural banks (RRBs) increased from 8,321 in the year 1969 to 68,282 branches as at the end of March 2005. The average population per branch office decreased from 64,000 to 16,000 during the same period.

The second phase focused on strengthening the financial sector through various reforms and change in regulatory norms during the nineties. The highlights being Introduction of Self Help Groups (SHG) and bank linkages and Kisan Credit Cards, The focus was towards providing credit benefit to the masses. And it turned to be a good success especially for Women.

The present phase i.e. 2005 onwards has been explicitly a policy priority with a greater emphasis on the development of innovative banking and financial products and services and coverage of wide population of unbanked and under banked. Many initiatives are taken by RBI and Government of India to improve the position.

Government Initiatives

Over the years, various steps have been taken by the government to increase the participation of people in the financial system of India. Following is the brief summary of the government initiatives for enhanced financial inclusiveness in India since Independence:

1. *Nationalization of Banks*: In 1969, a major overhaul in the banking sector took place with Nationalization of all the Banks existing in India, under the Prime Minister ship of Smt. Indira Gandhi. This move was to make Banking services more affordable and accessible for the common people by regulating the banking policies as per the socialist objectives of the country. There was a greater need to support agriculture and small industries by the provision of easy credit availability. Rural areas were virtually untouched by the banking revolution which was taking place in India. Hence the increased penetration of banks in villages was also the prime concern of the then Prime Minister. The move was in line with India's goal of Balanced Regional Development.

2. *National Bank for Agriculture and Rural Development*: NABARD was established in 1981 as a statutory body to enhance sustainable and equitable agriculture and rural prosperity through effective credit support, related services, institution development and other innovative initiatives. Various steps have been taken by NABARD for promoting financial inclusion. The institution is involved in refinancing numerous cooperative and Regional Rural banks. It also provides credit services to farmers and various subsidy schemes for the handloom sector, benefitting weavers in India. The institution is actively involved in various developmental activities such as setting up of Financial Literacy and Credit Counselling Centres (FLCCs) and capacity building programmes organizing Financial Literacy awareness camps for the under-privileged for promoting greater financial participation from rural areas.

3. *Small Industries Development Bank of India*: To boost and promote small and medium enterprises in India SIDBI was established. It was envisioned that MSMEs will definitely be instrumental in providing employment opportunities for people residing in small towns and will allow greater developmental opportunities to areas where big entrepreneurs are not attracted to set up industries. In a way, it was to finance and develop small scale sector, which now provided means of livelihood to various citizens of India.

4. *Swarnjayanti Gram Swarozgar Yojana (SGSY):* The scheme was initiated in the year 1999 with a vision to make avenues of self-employment available to the poor, specifically Below Poverty Line (BPL) families residing in rural areas. The aim was to assist families via training and capacity building measures. The concept of self-help groups (SHGs) was adopted wherein the people were segregated into groups who would carry out activities for their livelihood by providing income

generating assets. These groups were also linked to banks for meeting the financial needs and also to encourage savings among group members to make them self-sustaining.

5. *The National Rural Employment Guarantee Scheme (NREGS):* The National Rural Employment Guarantee Scheme was launched after the enactment of the National Rural Employment Guarantee Act in the year 2005. The main aim of the scheme was to provide employment for at least 100 days in a financial year. The scheme was specifically targeted for the rural poor, willing to do unskilled manual labour. The scheme in addition to wage employment also ensures gender and social empowerment, by increased women participation and wage parity. The scheme has been extremely successful particularly in southern states of India. It increased the number of saving bank accounts among rural population to a great extent since the wages were transferred directly into the saving banks accounts. It also provisioned them to get easy access to loans and various other benefits attached with the scheme.

6. *National Rural Livelihood Mission (NRLM)*: The mission was introduced to overcome the shortcoming of SGSY in the year 2010. Its mission statement states reduction of poverty through access to gainful self-employment and skilled wage employment as one of its prime objectives. It also aims to improve the standards of living of the poor by building strong and sustainable grassroots institutions for the poor. The mission emphasized on providing skilled training and improved market linkages along with capital and interest subsidy and easier availability of loans. Specific efforts for enhanced financial inclusions are included in the scheme encouraging financial literacy among the poor. The concept of 'Bank Mitras' was introduced to facilitate greater accessibility to bank services.

7. *Pradhan Mantri Jan DhanYojana (PMJDY)*: This financial inclusion initiative was launched by Government of India in August 2014. The national mission is aimed at expanding and making available the financial services such as Banking or savings and deposit accounts, credit, insurance, remittances and pension in an affordable manner. The scheme has unfolded a financial inclusion revolution in the country with an exponential increase in the amount deposited and accounts opened as part of the national campaign. More than 318 million bank accounts have been opened and approximately ₹792 billion have been deposited under the scheme as on June 27, 2018.

RBI Policy Measures

RBI has adopted a bank-led model for achieving financial inclusion and removed administrative bottlenecks to ensure greater financial inclusion in the country. In fact, RBI has provided institutional support as well as a conducive regulatory environment to banks to stimulate their financial inclusion efforts.

- Banks to open *Basic Saving Bank Deposit (BSBD)* accounts with important facilities, namely, no minimum balance, deposit and withdrawal of cash at bank and ATMs, receipt/ payment of money through electronic payment channels, facility of providing ATM card.
- *Relaxed and simplified KYC* norms to facilitate easy opening of bank accounts, especially for small accounts with balances not exceeding ₹50, 000 and aggregate credits in the accounts not exceeding rupees one lakh a year. Further, prospective bank customers are no longer required to be introduced by existing account holders. To reduce documentation burden, AADHAR card has been held valid to be used as an identity as well as address proof.
- *Simplified Branch Authorization Policy* Domestic SCBs are permitted to freely open branches in Tier 2 to Tier 6 centers with a population of less than 1 lakh under general permission in order to address the issue of uneven spread of bank branches. In North - Eastern States and the state of Sikkim, domestic SCBs can open branches without having any permission from RBI. Moreover, with the objective of further liberalizing, general permission to domestic SCBs (other than RRBs) has been granted for opening branches in Tier 1 centers as well.
- Compulsory Requirement of *Opening Branches in Un-banked Villages* Banks have been directed to allocate at least 25% of the total number of branches to be opened during the year in un-banked (Tier 5 and Tier 6) rural centers.
- *The opening of intermediate brick and mortar structure* Banks have been advised to open intermediate structures between the present base branch and BC locations to ensure effective cash management, documentation, redressal of customer grievances and close supervision of BC operations. This branch could be in the form of a low cost simple brick and mortar structure consisting of minimum infrastructure such as core banking solution terminal linked to a pass book printer and a safe for cash retention for operating larger customer transactions.
- Public and private sector banks had been advised to submit three year *Financial Inclusion Plan (FIP)*duly approved by the board from April 2010 onwards. These policies are aimed at setting self-paced targets in respect of rural brick and mortar branches opened, BCs employed, coverage of un-banked villages with population above 2000 and as well as below 2000, BSBD accounts opened, KCCs, GCCs issued and others. RBI has been monitoring these plans on a monthly basis.
- Banks have been advised that their *<u>FIPs should be disaggregated and percolated down up to the</u>*

<u>*branch level*</u>. This would ensure the involvement of all stakeholders in the financial inclusion efforts.

- In June 2012, revised guidelines on <u>*Financial Literacy Centers (FLCs)*</u> were issued. Accordingly, it was advised that FLCs and all the rural branches of scheduled commercial banks should scale up financial literacy efforts with the conduct of outdoor financial literacy camps at least once in a month; it is to facilitate financial inclusion through the provision of two essentials i.e. 'Financial Literacy' and ease of 'Financial Access'. In brief, 718 FLCs have been set up as at the end of March 2013 and approximately 2.2 million people have been educated through awareness camps / choupals, seminars and lectures conducted during April 2012 - March 2013.
- *Financial education* can prove to be a boon to financial inclusion in the long-run to address various demand side issues. Several financial education measures have been initiated by the RBI. For example, to create awareness about the concept of saving and encourage the habit of saving, it has started with publishing comic strips.

Corporate India Endeavors

A few large private corporates have undertaken projects such as E-Choupal/ E-Sagar (ITC), Haryali Kisan Bazaar (DCM), Project Shakti (HUL), etc. Reportedly, these pioneering projects have brought about a vast improvement in the lives of the participants and set the tone for economic development in their command areas; which is a pre-requisite for Financial Inclusion efforts to be undertaken by the banking system.

E-choupal – An initiative of ITC limited to link directly with rural farmers via the internet for procurement of agricultural and aquaculture products. The project involves the installation of computers with internet access in rural areas to offer farmers up to date marketing and agricultural information.

HariyaliKisan Bazaar (DCM) aims at providing end – to end ground level support to the Indian farmer for improving their productivity and profitability. It aims at creating a positive impact in bringing a qualitative change and revolutionizing the farming sector.

Project Shakti (Unilever) – an ambitious initiative by Hindustan lever limited to spur growth and penetration of its products in rural India while changing lives and boosting incomes. It was started in Dec2000 in the district of Nalgonda, in the southern Indian state of Andhra Pradesh.

Current Scenario

The extent of financial exclusion in India is found to be higher as compared with many developed and some of the major emerging economies. The following table summarizes India's performance in the area of financial inclusion as compared with other developing as well as developed countries

Select Indicators of Financial inclusion 2015

		No. of Bank Branches	No. of ATMs	No. of Bank Branches	No. of ATMs	Deposits	credits
S. No	Country	Per 1000 KM		Per 0.1 Million adults		As % to GDP	
1	India	39.59	54.90	13.04	18.07	62.87	49.65
2	China	9.59	65.49	8.06	55.03	137.28	0.92
3	Brazil	8.74	23.86	47.32	129.25	36.39	42.35
4	Indonesia	11.08	50.05	10.98	49.63	39026.27	34851.70
5	Mauritius	121.18	224.14	24.19	44.75	161.60	76.09
6	Mexico	6.84	22.48	14.91	48.99	22.39	19.63
7	Philippines	19.56	52.64	8.80	23.68	45.89	24.91
8	South Africa	3.44	20.81	10.94	66.20	41.03	65.46
9	Sri Lanka	45.94	42.02	18.65	17.06	40.64	35.30
10	Thailand	13.71	121.04	12.68	111.91	82.20	80.25
11	Malaysia	7.31	35.44	10.71	51.91	110.97	116.86
12	Korea	76.93	…	17.37	…	72.76	84.18
13	U K	54.95*	285.21	25.17*	129.76	131.91	126.77
14	U S A	9.09	…	32.39	…	57.98	43.60
15	Switzerland	82.75	172.59	47.43	98.92	165.11	164.54
16	France	37.96	107.06	38.56	108.75	34.82	38.38

Source: Financial Access Survey, IMF

(Data pertains to 2014, * indicates data pertains to 2013)

(Demirgüç-Kunt, A., Klapper, L. F., Singer, D., & Van Oudheusden, P)The Global Findex database reveals that between 2011 and 2014, 700 million adults worldwide became account holders. The number of adults without an account—the unbanked—dropped by 20 percent to 2 billion. Globally, 62 percent of adults have an account, up from 51 percent in 2011.

(RBI, Speech on Financial Inclusion delivered by Dr. (Smt) Deepali Pant Joshi, Executive Director, Reserve Bank of India at the Vth Dun and Bradstreet Conclave on Financial Inclusion, 2013) The World bank (2012) Findex Survey on ,"Measuring Financial Inclusion Indicators" World bank Policy Research Working paper #6025 states that in India only 35% of adults had access to a formal Bank account, only 2% of adults use a formal account to receive remittances from relatives and 4% use an account to receive government payments. These are 2011 figures and further ground has been covered but the challenges still remain.

In India, Progress of financial inclusion since the launch of financial inclusion plans clearly indicates that banks are progressing in areas like the opening of banking outlets, deploying BCs, the opening of BSBD accounts, grant of credit through KCCs and GCCs. Detailed trends are furnished in the following chart in the next page:

Financial Inclusion Plan-Summary Progress of All Banks Including RRBs

Particulars	Year ended March 2010	Year ended March 2014	Year ended March 2015	Progress April 2014 - March 2015
1	2	3	4	5
Banking Outlets in Villages - Branches	33,378	46,126	49,571	3,445
Banking Outlets in Villages – Branchless mode	34,316	337,678	504,142	166,464
Banking Outlets in Villages -Total	67,694	383,804	553,713	169,909
Urban Locations covered through BCs	447	60,730	96,847	36,117
Basic Savings Bank Deposit A/c through branches (No. in millions)	60.2	126.0	210.3	84.3
Basic Savings Bank Deposit A/c through branches (Amt. in billions)	44.3	273.3	365.0	91.7
Basic Savings Bank Deposit A/c through BCs (No. in millions)	13.3	116.9	187.8	70.9
Basic Savings Bank Deposit A/c through BCs (Amt. in billions)	10.7	39.0	74.6	35.6
BSBDAs Total(No. in millions)	73.5	243.0	398.1	155.1
BSBDAs Total (Amt. in billions)	55	312.3	439.5	127.3
OD facility availed in BSBDAs (No. in millions)	0.2	5.9	7.6	1.7
OD facility availed in BSBDAs (Amt. in billions)	0.1	16.0	19.9	3.9
KCCs (No. in millions)	24.3	39.9	42.5	2.6
KCCs (Amt. in billions)	1,240.1	3,684.5	4,382.3	697.8
GCC (No. in millions)	1.4	7.4	9.2	1.8
GCC (Amt. in billions)	35.1	1,096.9	1,301.6	204.7
ICT A/Cs BC Transaction (No. in millions)*	26.5	328.6	477.0	477.0
ICT A/Cs BC Transactions (Amt. in billions)*	6.9	524.4	859.8	859.8

* During the financial year.
(Source: RBI, Annual Report 2014- 2015)

Challenges to Implementation

Efforts initiated by the government and the RBI bore substantial fruits. Achievements cannot be ignored. Millions of no frill accounts have been opened. When the movement gained momentum people did not have bank accounts. But now with bank accounts being opened the issue still remains unresolved as the accounts are lying dormant. There are no transactions in these no frill accounts. Banks need to offer incentives to make these accounts active.

The task of covering a population of 1.4 billion with banking services is gigantic. It is clear that out of 600 thousand villages, centers that could be covered by brick and mortar bank branch network are only around 36,000. To provide access to financial services to all the villages in cost effective manner, the RBI advised commercial banks to hire the services of business correspondent (BCs)/business facilitators (BFs). BC model is being perceived as a social obligation than a business opportunity. Due to a large number of non-operational accounts and/or high volume small value transactions, the model involves high cost. Lack of adequate infrastructure-roads, power, premises etc. is another aspect which hinders its effective implementation. Engaging business correspondents is not a full proof model. It brings along associated risks owing to the lack of professionalism of BCs, Non-insurance of cash held in transit by BCs. A high percentage of BC attrition due to inadequate remuneration and non-payment of the commission is another challenge. There are technological challenges as well such as the availability of handheld devices, technology partners, operational glitches digital connectivity, turnaround time etc.

Beneficiaries/ stakeholders often complain of constraints in digital/ physical connectivity. This, coupled with delays in issuance of smart cards, reliability issues in hardware infrastructure such as hand held devices, etc. have impacted the quick roll out of financial services across the country.

Cultural differences, diversity of the population, language barriers are other hurdles to be crossed before reaching towards the goal.

Financial illiteracy - In a number of States and territories there has been a rapid transition to a market economy over the last 20 years. Even if schools introduce financial literacy programmes, those past school age will not benefit from these;

Lack of experience - There are, in some cases, segments of the population with no historic experience of the formal financial system and who are reluctant to participate in it;

The complexity of financial products - The rapid development of sophisticated products (e.g. complex fund management and pension schemes), and, in some instances, aggressive marketing of these products, has created an additional barrier for people who are already unfamiliar with basic financial products (e.g. bank accounts and savings schemes);

Lack of confidence - The recent financial crisis has eroded confidence in financial institutions and, in a number of jurisdictions, this has resulted in significant withdrawals of funds from the banking system; and

Credit ratings - Lack of a financial "track record" can present problems where financial institutions rely on independent credit rating agencies to conduct initial credit checks.

Although substantive initiatives have been taken by the RBI and the government, certain additional policy modifications and more efforts by individual banks will be required to bring out people from financial seclusion.

Major Issues

- *Behavioral economics:* When people have an option, they generally do not subscribe to a beneficial plan or product. A case in point is pension plan. 90% of the employees did not enroll for it, when they had a choice.

  The government should make a subscription to banking services mandatory in order to make financial inclusion plans successful.

It should also keep the procedure simple and easy to understand to bring more people under the banking umbrella.

- *Innovative products*: Banks should move beyond traditional savings and lending products and innovate and provide insurance, mutual funds, pension plans, and remittances facilities to those out of formal financial network thereby helping them earn higher returns, manage risks and provide for their retirement.

- *Addressing social issues*: Financial inclusion initiatives will be a huge disaster if social issues are not addressed simultaneously. For instance marginalization of women in rural areas is prevalent on a wide scale. A large number of females are not permitted to own a basic savings account in spite of the fact that they are more into the habit of saving. Financial education can sensitize men folk and women can be made to understand and fight for their rights. Banks can offer financial products and services more attractive to women, offering higher fixed deposit rates and creating products customized to their needs.

- *Establishment of rural infrastructure*: Complete financial inclusion is not possible without establishing adequate rural infrastructure. All stakeholders, banks included, must contribute towards setting up connectivity and ensuring power supply among other things. Financial institutions must initiate programs to adopt schools, start vocational courses for rural youth and many more with the aim of strengthening the bond with rural folks. An improved rural economy will surely result in business for banks.

Road Ahead

The banks should come out of an inhibited feeling that very aggressive competition policy and social inclusion are mutually exclusive. As demonstrated elsewhere, the mass banking with no-frills etc. can become a win-win situation for both. Basically banking services need to be “marketed” to connect with large population segments and these may be justifiable promotional costs. The opportunities are plenty.

- In the context of India becoming one of the largest micro finance markets in the world especially in the growth of women’s savings and credit groups (SHGs) and the sustaining success of such institutions which has been demonstrated by the success of SEWA bank in Gujarat, low cost banking is not necessarily an unviable venture/proposition.

- The IBA may explore the possibility of a survey about the coverage in respect of financial inclusion keeping in view the geographical spread of the banks and extent of financial services available to the population so as to assess the constraints in the extension of financial services to hitherto unbanked sections and for initiating appropriate policy measures.

- It may be useful for banks to consider franchising with other segments of the financial sector such as cooperatives, RRBs etc. so as to extend the scope of financial inclusion with minimal intermediation cost.

- (RBI, Strategy adopted for Financial Inclusion, 2014) All stakeholders like RBI, Other sectoral regulators like SEBI, IRDA, PFRDA, etc., NABARD, Banks, Governments, Civil Societies, NGOs, etc. to work together for a sound and purposeful collaboration.

- Adequate infrastructure such as digital and physical connectivity, uninterrupted power supply, etc. will boost the financial inclusion initiatives.

Since large sections of low income groups transactions are related to deposits and withdrawals, with a view to containing transaction costs, 'simple to use' cash dispensing and collecting machines akin to ATMs, with operating instructions and commands in vernacular would greatly facilitate financial inclusion of the semi urban and rural populace. In this regard, it is worthwhile to emulate the example of ‘e-Choupal’ project brought forth through private sector initiative.

Concluding Observations

The issue of financial inclusion has received large importance in India during the recent years. India had invested considerable amount of resources in expanding its banking network with the objective of reaching to the masses. Financial inclusion is very important for the progress and development of the economy. Many types of research have indicated a direct correlation between financial inclusion and poverty reduction. Even the poorest of the poor require financial services. Considerable evidence indicates that poor benefit enormously from basic payments & transfer, savings and government supported insurance and pension products.

To achieve complete financial inclusion and robust economy there is a dire need of change in the outlook of banks and financial institutions. They need to pursue financial inclusion policy whole heartedly as a profitable business opportunity and not social or regulatory obligation which consequently makes their efforts half-hearted. Banks should be more customer friendly.

Product designs that address market failures, meet consumer needs, and overcome behavioral problems can foster the widespread use of financial services.

Innovations in technology - such as mobile payments, mobile banking, and borrower identification using biometric data (fingerprinting, iris scans, and so on) - make it easier and less expensive for people to use financial services, while increasing financial security. The impact of new technologies can be amplified by the private sector’s adoption of business models that complement technology platforms (as is the case with banking correspondents). To harness the promise of new technologies, regulators need to allow competing financial service providers and consumers to take advantage of technological innovations.

While India is on a very high growth path, majority of the people are out of the growth process. This is neither desirable nor sustainable for the nation. We also know that one of the most important driving forces of growth is institutional finance. Therefore, it is now realized that unless all the people of the society are brought under the ambit of institutional finance, the benefit of high growth will not percolate down and in the process majority of the population will be deprived of the benefits of high growth. Thus financial inclusion is not only socio-political imperative but also an economic issue.

In financial inclusion, there are a few potentially interesting areas for future research:

- The most appropriate delivery model (which banks are still trying to figure out) for different geographical regions given their unique characteristics,

- The unbanked segments- albeit in rural, urban or metropolitan areas are largely served by the un-organized sector even today. Research into the products, practices and procedures of this unorganized sector is an absolute imperative, to identify and understand the same which the bottom of the pyramid populace finds so convenient and comfortable to deal with. This could throw up valuable leads for the organized sector – banks and financial institutions to follow

- Further, in order to measure the intensity of money lenders especially in rural areas, research agencies should, inter alia, conduct a census of money lenders in rural India.

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IDENTIFYING THE DIMENSIONS OF GOOD GOVERNANCE: A STEP TOWARDS ATTAINMENT OF GOAL 16 OF AGENDA 2030

Arpita Agrawal

Abstract:

The concept of good governance has received wide endorsement and is being increasingly considered as catalyst for sustainable development. Its significance has also been highlighted in Goal 16 of the Sustainable Development Goals (SDGs) of 2030 development agenda[1]*. Each of the 12 targets of this goal touches upon the vivid dimensions of governance. However, achieving this goal is quite challenging. The literature suggests that the degree of subjectivity involved in the concept of 'good governance' is one of the major challenges. In this backdrop, this paper attempts to identify the key dimensions and ingredients of good governance using comprehensive review of relevant literature. The objective of the paper is to trace the origin of the concept of good governance, understand its evolution and explore its various dimensions. Based on the findings, the paper categorises dimensions of good governance as regulatory, administrative, social and ethical. Further, seven key ingredients have also been identified. The findings could assist in devising methodology for quantifying the concept of good governance thereby moderating the subjectivity involved in the concept.*

Key Words:

Governance, Sustainable Development, Government Policy

[1]On 25 September 2015, 193 countries of the UN General Assembly adopted the 2030 Development Agenda titled Transforming our world: the 2030 Agenda for Sustainable Development outlining the 17 Sustainable Development Goals and its associated 169 targets.

Introduction

The adoption of 2030 Agenda by 193 nations represents a landmark commitment towards attainment of sustainable development at global level. The seventeen SDGs contained in the Agenda are built upon the eight Millennium Development Goals (MDGs), however they are much more comprehensive and ambitious. SDGs also contain a goal which explicitly recognises the significance of good governance which was lacking in the earlier development goals. Goal 16 of the Agenda i.e. providing access to justice for all and building effective, accountable and inclusive institutions at all levels, acknowledges good governance as a key outcome as well as enabler of sustainable development and stresses upon fostering of good governance at all levels.

Considering the growing consensus regarding criticality of good governance and an unequivocal acceptance of its significance for the achievement of sustainable development, it becomes essential to attain good governance at corporate as well as national level. Certain literature reviewed has also pointed out positive correlation between the good governance and development. Sharma (2001) and Bosselmann et al. (2008) consider it as a crucial element of attaining sustainable development.

To attain good governance, it is essential to contemplate upon the concept of good governance and its dimensions which are deemed to be highly subjective due to two main reasons; firstly- the term governance deals with exercise of power, the limits of which depends upon the realm in which that power is being exercised. Secondly, the term “good” (being itself subjective) prefixed with “governance” is itself subjective in nature.

The literature exploring the dimensions of good governance at national level in Indian context is quite sparse. Thus this paper attempts to fill this gapand provide a fundamental guidance about the dimensions of good governance for better implementation and follow-up of Goal 16. Whilst there could be no one- size- fit-all approach for any of the Goals, the paper highlights the universal elements of good governance that need to be imbibed at different levels to catalyse efforts towards Goal 16.

Governance

The concept of governance has evolved a lot over the last few decades. Further, the term ‘Governance’ as well as ‘Good Governance’ are being increasingly used in corporate and development literature thereby garnering interest of various researchers, policymakers and Government. At times, these two terms are used interchangeably; further, at times these two terms are used to refer a narrower concept of corporate governance. However there is a slight difference among the three terms; Firstly, governance can be considered as the exercise of different types of power to manage affairs of a Company, Institution or Government; Secondly, good governance is related to effective and efficient exercise of this power; Thirdly, Corporate Governance is used to refer the manner in which a firm or corporate is governed. Since this paper emphasises on the concept of good governance, the term governance is used in a broader sense referring to the exercise of power at national level.

Different literature defines 'Governance' in different manner for example Asian Development Bank- ADB (1992) defines Governance as "the manner in which power is exercised in the management of a country's economic and social resources for development". While, International Monetary Fund - IMF (2002) mentions that "the term governance, as generally used, encompasses all aspects of the way a country is governed, including its economic policies and regulatory framework".

Further, one view is to consider Governance as a framework comprising of the institutions and mechanism followed by them to exercise their power in order to fulfil their obligations and duties in the interest of stakeholders. Another view is to consider Governance as "the action, manner or fact of governing" and thus cogitate it as the process of making and/ or implementing decisions.

Succinctly, governance means the use of power. It can be used in different arenas and thus be defined in different contexts such as international governance, national governance and corporate governance etc.

Good Governance - Beyond Governance

Good governance has always been an area of interest for thinkers, policy planners, decision makers and academics. It is often considered as the means for running an institution in an effective and efficient manner. Though it is a subjective concept, it is considered conceptually superior to a mere good government or good institution.

Good governance is often linked to with sustainable development. According to, ADB (1997), "Good governance is synonymous with sound development management. "Bhatiya (2002) views that Good governance implies that the institutions are run for the optimal benefit of the stakeholders in it. It is imperative to mention here that the concept of governance has gained all the more importance with the popularisation of the concept of separation of ownership and management wherein owners expect the managers / agents to respect the underlying fiduciary relationship and act in honest and prudent manner while fulfilling their duties and obligations. Further, owners and managers/ agents are not the only stakeholders in governance. Other stakeholders of Governance vary depending on the context in which it is being referred to. At the national level, in addition to the public at large and Government, other stakeholders may involve media, multi-national corporations, lobbyists, international institutions, local authorities. Similarly, for a corporate, stakeholders would include, shareholders, directors, vendors, customers, competitors etc.

All the stakeholders involved assume that managers/ agents are acting based on certain values. Dey (1988) points out that while Governance as a process denotes a value free dispensation, good governance being an adjectivized expression, connotes certain values assumptions in the decision-making process. These assumptions, among other things include following of rule of law, ensuring transparency, prioritising the allocation of resources etc.

Being a subjective term, these fundamental assumptions could not be limited under particular heads. Conversely, these are dynamic and keep on varying with the time and society in context. Kashyap (1997) suggests that Good Governance involves the clear identification of the basic values of society and perusing these.

Good Governance in India – Evidences from the History

The concept of Good Governance is not new in Indian History. Exploration of the annals of history reveals the presence of governance, particularly good governance since ancient times. The whole of Ancient Sanskrit literature, i.e. Bhagvad Geeta, Ramayana, Mahabharata as well as Vedas allude to the concept of good governance in the relevant times.

The essence and basis of the Good Governance as per ancient Indian depends on the fundamental tenet of Common Good i.e. '*Sarva*', it is clear from the famous dictum '*Sarvajanahitaih, Sarvajanasukaiah*'. This further emphasises three essence of decision making i.e. welfare of all (Sarva Loka Kalyankari Karma), protection of all (Sarva Loksangrahamevapi) and care for all (Sarva Hitey Ratah).

The details of this concept are also implicitly mentioned in descriptions of Indus valley civilization and vedic civilization. Also, the concept of *Ram-Rajya* over his kingdom as mentioned in Ramayan is often considered synonymous to good governance.

In the Gita, it has been mentioned that "Whatsoever a great man does, the same is done by others as well. Whatever standard he sets, the world follows." The Gita thus points out that the great men are the path makers and thus rulers must demonstrate goodness in their actions. [2]

Mahabharata also mentions the duties of the king at vivid places. Further, the Shanti Parva- the Book of peace recites significant dimensions of good governance some of which include; to make subjects happy, to observe truth, to act sincerely, to protect Dharma and enhance virtuous acts, not act capriciously.

It is imperative to mention here that Dharma was emphasised as a significant aspect of good governance during ancient times. The Shanti Parvamentions that it is Dharma that restraints and limits all evil acts of men, therefore, a king should follow the dictates of Dharma.[3] Further, The Gita mentions that, one ought to understand what duty is, and what is forbidden in the commands laid down by the scriptures. Knowing such rules and regulations, one should behave as ordained by scriptures.[4]

Swami Ranganathanada points out that unbiasedness is a significant precept of Dharma and mentions that "Neither father, nor a teacher, nor a friend, nor mother, nor wife, nor a son, nor a domestic priest should go unpunished for the offences committed, failure to punish amounts to failure of Dharma". He also points out that king ought to be knowledgeable about the conducts as laid down by all sages and act in a righteous manner and he should not hesitate to punish the wicked, honour the good and enrich the treasury by just methods.

Dharma could be said to be righteousness and in modern times it could be equated to the compliance with the laws, rules and regulations. Thus, acting in just and fair

[2] SrimadBhagvadGita,Chapter III, Verse 21

[3] Shanti Parva, Chapter LVIII, Verse 11, XC, Verse 3, 18 and 19

[4] SrimadBhagvadGita, Chapter XVI, Verse 24

manner and acting within the limits defined by the legal and moral guidelines is essential dimension of good governance.

More than 2300 years ago, Kautilya has highlighted the need of good administration to look after the welfare of the people. He elaborates on the fourfold duty of a King in his seminal work *Arthashastra* :- *Raksha* – Protection; *Vriddhi* – Enhancement; *Palana* – Maintenance; *Yogakshema* – Safeguard. Moreover, in the context of duties of the ruler, he also mentioned that "whatever pleases him he shall not consider as good, but whatever makes his subjects happy, he shall consider good, in the happiness of his subjects lies his happiness; in their welfare his welfare";[5] He thus summarily oriented the idealism of governance towards holistic interests of the state and society. Manusmriti mentions that a king, while conducting his royal duties, shall ensure the good of his subjects.[6]These duties are essentially considered as the principles of good governance in the modern times too.

In the independent India, the concept of good governance bears significance in the Government policies and programmes. The preamble of the Indian Constitution recapitulates that securing social, economic and political justice for all its citizens is the primary goal of the nation. Further, Part-IV of the Indian Constitution - Directive Principles of State Policy explicitly mentions the elements necessary for achieving these goals.

In the recent years number of initiatives have been taken to promote good governance in the functioning of government and private institutions which inter-alia includes, focus on minimum government maximum governance, emphasising and prescribing regulations with respect to corporate governance, enactment of Right to Information Act, digitization of several processes to enhance transparency etc.

Therefore, the tenets of welfare state and dharma as prescribed during ancient times bear striking resemblance to the modern day concept of good governance in respect of ideology, however, the concept of good governance has evolved a lot and today it primarily connotes the way of effectively managing economic resources and deals with the nature and limits of power.

The following section highlights the formal evolution of the concept of good governance and its dimensions.

Evolution of the concept of Good Governance at Global Level

The term good governance in its present form was coined and promoted by the World Bank in 1989 with reference to the development assistance provided to the third world countries particularly, Sub-Saharan nations of Africa (SSA). This has reference to the economic crisis faced by Sub-Saharan countries in 1970s after which two Bretton Woods institutions i.e. World Bank and International Monetary Fund (IMF) implemented structural adjustment programs (SAPs) to provide loans to third world nations to assist them in dealing with economic crisis. These loans were provided under certain conditions which included; reduction of deficit in balance of payments and budget through currency devaluation, higher taxes, lower government spending,

[5]Arthasastra, Book I, Chapter IXX, 39
[6]Manusmriti, Book IX, Verse 324

cutting down subsidies, privatization of state-owned enterprises improving governance and fighting corruption, etc. These conditions were criticized for diverting the focus from the social sectors and causing serious socio-economic problems in SSA. Conversely, the same programs were successful in some of the other countries.

In 1988, the World Bank report evaluated ten year performance of SAPs and concluded that SAPs were successful in countries having institutional framework to implement these programs. However, countries with severe institutional and managerial weaknesses in the public and private sector were suffering.

In 1989, World Bank published its report titled, "*Sub Saharan Africa-From crisis to sustainable growth: a long-term perspective study*" which held bad governance responsible for deteriorating situation in SSA. This was the first report that formally highlighted the concept of governance. According to the report, the term governance was defined as "the exercise of political power to manage affairs of the nation." Further, the term good governance was not explicitly mentioned in the report except in the foreword.

Though initially, World Bank avoided prefixing, 'good' with governance, it started using the term good governance frequently thereafter. This concept of governance got developed further in 1992 with the World Bank's publication titled *Governance and Development* wherein governance was defined as "the manner in which power is exercised in the management of a country's economic and social resources for development.", it explained the importance of governance for development and summed up the conditions for good governance in following words:

"Governance is a continuum and not necessarily unidirectional: it does not automatically improve overtime. It is a plant that needs constant tending. Citizens need to demand good governance. Their ability to do so is enhanced by literacy, education and employment opportunities. Although lenders and aid agencies and other outsiders can contribute resources and ideas to improve governance, for change to be effective it must be rooted firmly in the societies concerned and cannot be imposed from outside".

The governance report concluded that a predictable and transparent framework of rules and institutions for the conduct of private and public business are essential for sustainable development.

Later on the Report of World Bank (1994) described developments under four sub-headings (i) public sector management; (ii) accountability; (iii) legal framework or development; and (iv) transparency and information.

Dimensions of Good Governance

In the last three decades good governance has become widely used concept in both academic and donor communities and their approaches are different. Different development Institutions have tried to identify the key elements of good governance.

World Bank has identified following elements for the developed and the developing countries: (i) Legitimacy of the political system; (ii) Freedom of association; (iii) Established legal framework (iv) Bureaucratic accountability; (v) Freedom of information and expression; (vi) Sound administrative system; (vii) Co-operation between the government and civil society organizations.

Where on one hand Organization for Economic Co-operation and Development – OECD attempts to link good governance with Legitimacy of government, Accountability of political and official elements of government, Competence of governments to make policy and deliver services and Respect for human rights and rule of law. ADB on the other hand has recognised accountability, transparency, the rule of law and participation as four pillars of good governance.

Further, other than the four afore-mentioned elements, African Development Bank – AfDB considers efforts made for combating corruption as another key element of good governance.

Here, it may be noted that corruption is often defined as the abuse of public authority or trust for private benefit and it is a much narrower term as compared to the concept of good governance. The two concepts are closely linked. Absence of corruption not necessarily mean good governance however presence of the same does point towards flaws in good governance.

As per UNESCAP (1999), Good governance has 8 major characteristics- Participation, Rule of law, Transparency, Responsiveness, Consensus orientation, Equity, Effectiveness and efficiency, Accountability and Strategic vision. Further, the United Nations Educational, Scientific and Cultural Organization - UNESCO highlighted that education is a crucial factor for establishing good governance. United Nations- UN in June 2001 recommended the adoption of five UN principles of Good Urban Governance which included (i) Effectiveness (efficiency, subsidiarity and strategic vision); (ii) Equity (sustainability, gender equality and intergenerational equity); (iii) Accountability (transparency, rule of law and responsiveness); (iv) Participation (citizenship, consensus orientation and civic engagement); (v) Security (conflict resolution, human security and environmental safety).

Several researchers have also analysed good governance and identified its key dimensions. Lander-Mills and Serageldin (1992) included political and bureaucratic accountability, freedom of association, objective and efficient judiciary, freedom of information and expression, and efficient public institutions as the critical elements of good governance. Shah (1994) argued that decentralization of fiscal responsibility contributes to the efficiency of Government, which is a key parameter of good governance. Root (1995) considered accountability, transparency and predictability as key indicators of good governance. Huther and Shah (1998) considered citizen exit and voice, government orientation, social development and economic management as key elements of good governance. Aedrianleftwich (2003) highlighted that good governance includes a system to promote open, market-friendly and competitive economy coupled with Democratization and Improvement of human rights record. Kumari (2013) highlighted that Right to Information is the hallmark of good governance. Armin et al. pronounced ten elements of governance as equity, participation, pluralism, partnership, transparency, accountability, rule of law, effectiveness, efficiency and responsiveness.

The Human Development Report (2002) highlighted that Human Rights and Good Governance are intimately related. Good governance promotes human rights while human rights are a source of Good Governance. The report identified following features of good governance: (i) Respecting of human rights and fundamental freedoms and allowing people to live with dignity; (ii) Ensuring that people have a say in decisions that affect their lives; (iii) Accountability; (iv) Equality of gender; (v) People are free from discrimination based on race, ethnicity, class, gender, or any other attribute; (vii) The needs of future generations are reflected in current policies; (viii) Responsiveness of policies to people's needs and aspirations (ix) Aiming the economic and social policies towards eradication of poverty and expanding of the choices. United Nations Conference on Anti-Corruption (2006) identified Transparency, Responsibility, Accountability, Participation and Responsiveness as the key attributes of good governance.[7]

The Worldwide Governance Indicators (WGI) has been publishing aggregate and individual governance indicators for nations since 1996 under six dimensions. These being, Voice and Accountability; Political Stability and Absence of Violence; Government Effectiveness; Regulatory Quality; Rule of Law and Control of Corruption.

[7]United Nations, (2006). Conference on anti-corruption measures, good governance and human rights

Though, Millennium Development Goals (MDGs), the predecessors of SDGs didn't have any outright governance indicator, SDGs do have Goal 16 which emphasises on achieving good governance as a fundamental goal for attaining sustainable development. This goal has 12 targets, each of which highlights fundamental element of good governance. These targets being; significantly reduce all forms of violence and end all forms of violence against children, Promote the rule of law, combat illicit activities and terrorism, reduce corruption, develop effective, accountable and transparent institutions, ensure responsive, inclusive, participatory and representative decision-making, provide legal identity for all, protect fundamental freedoms and promote and enforce non-discriminatory laws and policies for sustainable development.

Discussion

In the view of the literature reviewed and the analysis, the terms governance and good / bad governance could be differentiated as under:

Good Governance	Governance	Bad Governance
• Adhering to rule of law • Priortising the allocation of resources • Transparency in processes • Working towards mission and vision statement • Accountability with responsibility • Encouraging Participation in decision making	• Rule of law • Allocation of resources • Process flow • Mission and vision statement • Responsibility • Democracy	• Non compliance with law • Allocating resources without prior priotisation • Black box approach • Actions deviating from mission and vision • Not taking responsibility for actions • Making discriminations and discouraging participation

Considering the findings from the review of literature, the paper has identified, four key the dimensions of good governance. These are:

1. Regulatory Dimension: The regulatory dimension implies that primarily there should be well drafted laws, rules and regulations based on the principle of justice and participation. Further, people must be made aware about these laws so that they are aware of their rights and obligations. Also, the stakeholders must ensure compliance with the rule of law and discourage and combat any sort of activity against the law. It further encompasses the mechanism and manner for enforcing the law. There should be separation of judiciary from administration to avoid any conflict of interest; also laws should be implemented equally without any discrimination or biasedness.

2. Social Dimension: The social dimension deal with people, in order to ensure good governance, the decisions should be made with a view to protect the interest of all the stakeholders. The freedom and rights of individuals must be protected and there should be no discrimination of any sort. The institution should try to make people aware about their rights and duties and respond to their needs.

3. Political/Administrative Dimension: It deals with the manner of using

power. There should not be abuse of power. Further, the collective interest of stakeholders must be considered more important than personal interest of decision maker. Accountability, transparency, fair elections and democratic government are significant prerequisites of political dimension of Good Governance.

4. Ethical Dimension: This could be considered as the most subjective dimension of good governance which highlights that good governance could not be legislated rather it could only be resonated in the actions. It is the moral duty of individuals to act righteously and adhere to certain principles of ethics such as self-autonomy, Beneficence, non-maleficence, justice etc.

Moreover, seven key ingredients of these dimensions have also been identified. These include transparency, accountability, equity, effectiveness, efficiency, consistency and responsiveness. These key ingredients should be present under each of the dimensions to ensure the existence of good governance at Corporate as well as National level.

Conclusion

Thus, the significance of good governance could not be undermined in the sustainable development agenda. Literature reviewed shows that though the concept of good governance has evolved over the years, its dimensions and ingredients remain illusive. Also, Good Governance is a dynamic and progressive concept with different meanings in context to different actors. Further, vivid political, social and economic milieu help in redefining its dimensions every moment. Hence, it is difficult to delimit the scope of the term and clearly mention its dimensions. However, the paper has attempted to identify key dimensions and ingredients of good governance that are relevant for institutions at level, viz. corporate, local national as well as international level. The indicators of these dimensions and ingredients would depend upon the institution in context.

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PRICE DISCOVERY IN COMMODITY FUTURES MARKET: A STUDY ON INDIAN BULLION (PRECIOUS METAL) MARKET

Surajit Dawn

Abstract:

Bullions (precious metals) i.e. gold and silver are highly sought in India due to their industrial usage as well as for the domestic demand by the common people owing to passion of owning. Commodity futures contract of precious metals play an important role in risk management. This study attempts to present the recent developments in Indian commodity futures market along with the assessment of price discovery, both in spot and the futures market, of the precious metals. Co-integration technique and the Vector Error Correction Model have been applied on the daily spot and the futures price data of these two precious metals. Both the spot and the futures market have been found co-integrated. The futures market is found to play pivotal role in price discovery may be due to technological advancement. The related information is incorporated in the futures price first and then adjusted in the spot price to reach to equilibrium.

Key Words:

Commodity Futures Market, Co-Integration, Derivative Market, Precious Metal, Price Discovery, Risk Management, Short Run and Long Run Causality

Commodities are the basic goods such as primary agricultural products, metals and other substances most often used as inputs in the production of other goods and services. These commodities have significant economic and commercial values. The most challenging task for the people, who are traders, manufactures or associated in dealing with the commodities, is to protect themselves from the adverse fluctuations in price of the concerned commodity. Therefore, a risk management tool is necessary. Among the different derivative instruments, the forward contracts served the said purpose for a long period of time in India. A forward contract is the contract agreed between two parties to buy or sell any commodity at a pre-determined price on a future date and thus the risk associated with the fluctuation in price can be avoided by entering into the contract. But, there are some inherent limitations of forward contracts. First of all, the parties willing to enter into the contracts must search each other to enter into the contract, which reduces the scope of risk management and kept the opportunity confined to few people only. The other limitations associated with the forward contracts are the lack of standardisation in the underlying commodities traded, the high counterparty default risk and the lack of organised trading. Unlike the forward contracts, the futures contracts are exchange traded and therefore it is organised and regulated. In futures contracts, the exchange organises the contracts and thereby eliminates the possibility of risk of default at the time of maturity. The futures market, where the futures contracts are entered into, can be accessed from anywhere with the help of modern technology. Futures contracts play important role in risk management as one can even square off the contracts before the maturity and thereby he can avoid the physical delivery. The present study is an attempt to assess the futures market in terms of its effectiveness in managing risks associated with fluctuations in the price of the underlying asset. For this purpose the bullions (precious metals) i.e. the gold and the silver have been considered, as in addition to their various industrial usage, they are highly sought-after by the common people only to fulfil the passion of owning valuable metals. These two metals are highly demanded in producing ornaments and utensils. This is the reason for a significant number of small scale business to have shown interest in this two metals and they are also in need of price risk management.

Now, it is important to examine the futures market for the bullions in terms of its effectiveness in assisting in risk management. Therefore, a study relating to price discovery in the spot and the futures market for the bullions is necessary. A thorough understanding of causal relationship in the process of price discovery between the spot and the futures price of the bullions would be of immense help for risk management.

Before we proceed to assess the price discovery in the spot and the futures market of bullions, it is customary to look at the overview of these two metals as well as at the recent developments in the commodity futures market in India.

Overview of Bullions (Precious Metals)

Gold: Gold, unlike others, has been at the top place in the category of metal since long, even before the beginning of recorded history. Its rarity, easy smelting, distinct colour, non-reactiveness to other element, non- corrosiveness and easy handling made it distinct from the other metals which in turn increased the value to the highest level. These characteristics make gold the most sought-after of all metals to the mining companies, processors, companies dealing in gold and gold products, jewellers and even the governments. The following are the tables showing the reported official gold holding; the country-wise consumer demand of gold and the sector-wise global demand of gold respectively in the year 2016.

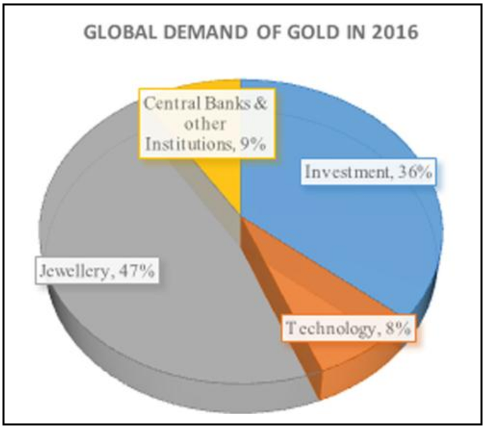
Table 1: Reported Official Gold Holding

Reported Official Gold Holding			
Country	**Tonnes**	**Country**	**Tonnes**
United States	8133.5	Netherlands	612.5
Germany	3377.9	India	557.8
IMF	2814.0	ECB	504.8
Italy	2451.8	Taiwan	423.6
France	2435.8	Portugal	382.5
China	1842.6	Turkey	377.1
Russia	1615.2	Saudi Arabia	322.9
Switzerland	1040.0	United Kingdom	310.3
Japan	765.2	Lebanon	286.8
Source: IMF IFS, World Gold Council (December 2016)			

Table 2: Country-wise Consumer Demand in 2016

Country-wise Consumer Demand in 2016 (in Tonnes)			
Country	**Jewellery**	**Bars & Coins**	**Total**
China	629.0	284.6	913.6
India	514.0	161.6	675.6
Japan	16.9	20.0	36.9
Indonesia	38.4	21.1	59.5
Thailand	11.8	69.7	81.5
Vietnam	15.4	42.9	58.3
Middle East	193.1	18.1	211.2
Turkey	40.0	29.4	69.4
Russia	33.8	3.7	37.5
United States	118.3	93.2	211.5
Europe ex CIS	75.8	196.0	271.8
Source: World Gold Council			

Chart 1: Global Demand of Gold in 2016

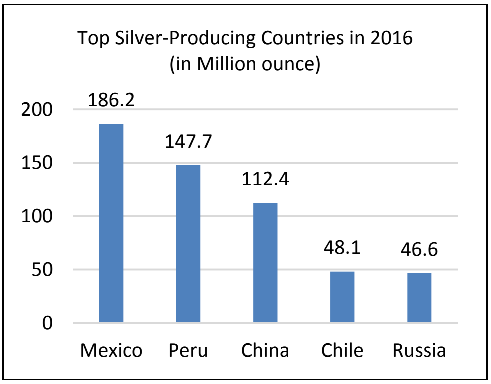


Source: World Gold Council

The beauty, liquidity, investible quality and the above mentioned industrial properties have made gold one of the most preferred financial assets also which is assumed to have capability of maintaining its value even in adverse financial calamities. However, like other asset classes, gold price has also been highly volatile due to globalisation. Therefore to deal with heavy price movements, price risk management techniques has become essential to safeguard various stake holders dealing in gold.

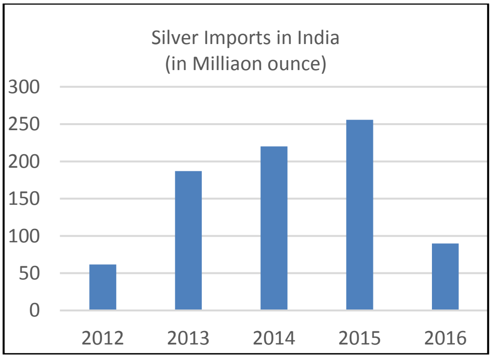
Silver: Silver is the second most sought-after metal after gold. Silver is the grey-white soft metal with the some unique properties including strength, ductility, malleability, high-sensitivity, reflectance of light, reactivity and electrical & thermal conductivity. For a very long period of time along with the various industrial use, silver has also been used to make jewellery and utensils. The following tables show the top silver-producing countries and import of silver in India in the year 2016 respectively.

Chart 2: Top Silver-Producing Countries in 2016



Data Source: World Silver Survey 2017

Chart 3: Silver Imports in India



Data Source: World Silver Survey 2017

Unlike other metals, the gold and the silver have huge domestic demands. Common people in India are also concerned about the fluctuation in the price of these two metal which motivates the present study to assess the commodity futures market considering bullions.

Recent Developments in the Commodity Futures Market in India:

India has a long history of presence of commodity derivative market over centuries. But, among the derivative instruments mainly the forward contracts used to play dominant role in the risk and return management. As discussed earlier, due to its inherent limitations, the forward contracts remained confined to few people only. A strong need were felt to establish an effective futures market for the commodities in the Indian economy to provide opportunity for investment as well as risk management. The various committees were formed to consider these matter and finally at the beginning of twenty-first century the commodity futures market started its operation in the Indian economy.During 2002 to 2005, three national level electronic exchanges and twenty-one regional exchanges start their operation.(Kothari and Kudal, 2013). Currently twenty-six regional exchanges along with three national exchanges are operating.

Commodity futures market in India is relatively new as compared to stock market and there has been continuous endeavour on the part of the Government of India to increase the effectiveness in its operation and also to ensure parity with the other organised financial markets. The following are the recent developments in the commodity futures market in India:

- One of the notable incidents, in the commodity futures market, is the imposition of Commodity Transaction Tax (CTT) like the Securities Transaction Tax (STT) in the stock market in the financial year 2013-14 with the assumption that it will bring parity in investment.
- The Forward Market Commission (FMC), as the arm of Ministry of Finance of the Government of India, used to monitor as the regulatory body for the futures trading in India. The FCM has been merged with the Securities and Exchange Board of India (SEBI) in the year 2015 for more expertise regulation. This has been one of the important moves by the Government of India in increasing the confidence of the investors towards commodity futures market as the SEBI is regarded to be the trusted and credible regulator of the financial markets.
- Initially the institutional investors were no allowed to take part in the commodity futures market. But, to bring liquidity and depth for efficient price discovery and price risk management, various committees constituted by the Government of India advised for the inclusion of institutional investors in the commodity futures market. The SEBI has now allowed Category III Alternative Investment Funds to participate in all commodity derivative products as client to be subjected to all the rules and regulations issued time to time by the SEBI (*as per SEBI Circular Number. SEBI/HO/CDMRD/DMP/CIR/P/2017/ 61 dated June 21, 2017*)
- The introduction of Goods and Services Tax (GST) in the Indian Economy, in July, 2017, has eliminated differential taxes and enabled smooth flow of tax credit. This incident is considered to have a positive impact in the commodity futures trading.
- The introduction of the option trading in October, 2017 in the commodity derivative market is also a significant phenomenon. Option trading also plays important role in risk management like futures trading. Therefore, simultaneous presence of both of these trading is assumed to bring more effectiveness in the risk management.

Review of Literature: Literature regarding price discovery in commodity futures market, especially in Indian context, is very scare. The reason for such scarcity may be the late introduction of commodity futures market in India as compared to the commodity futures markets in the developed countries. But there are plenty of literature regarding the various aspects of the commodity futures market mainly relating to the developed countries. Therefore, studies relating to relationship between spot and futures of commodities in the Indian context as well as that of the developed countries have been mentioned below.

Runstler (1995) found the existence of long-run relationships between futures and spot prices of cocoa on the New York CSCE and London Fox, respectively, and between both markets.

Schnepf (2006) reported a general description of price determination in major U.S. agricultural commodity markets and found that the general price level of an agricultural commodity is mainly influenced by variety of market forces that can alter the current or expected balance between supplies and demands.

Ravichandran (2008), in hisstudy intends 1) to find out the preference level of investors on various capital market instruments, 2) to find out the type of risk which are considered by the investors 3) to find out the ways through which the investors minimize their risk and 4) to find out the preferences of Investors in derivatives market. About 100 samples were collected from Chennai city from various investors through a structured questionnaire.In the current scenario, investing in stock markets is a major challenge ever for professionals. Derivatives acts as a major tool for reducing the risk involved in investing in stock markets for getting the best results out of it. The investors should be aware of the various hedging and speculation strategies, which can be used for reducing their risk. Awareness about the various uses of derivatives can help investors to reduce risk and increase profits. Though the stock market is subjected to high risk, by using derivatives the loss can be minimized to an extent.

Mahalik et al. (2009) examined that the futures market effectively serves the price discovery function, and that the introduction of futures trading in India has resulted volatility in the underlying spot market.

Lehecka (2012) tried to analyse the relationship between the futures and the spot prices. Appling co-integration and Granger-causality analyses it is found that there exists bi-directional causality between daily commodity spot and futures prices.

Peri, Baldi and Vandne (2013) investigate the long-run relationship between spot and futures prices for corn and soya-bean collecting the data from Chicago Board of Trade (CBOT). The study period was from 2004 to 2010. The notable finding in the study is that, during the time of crisis, in particular, in the phase of strong price increase the spot market plays important role in the price discovery.

Gakhar and Meetu (2013) in order to assess the evolution, trading mechanism and future prospects of derivatives market in India, found that in spite of the growth in the derivative market there are many issues like the lack of economies of scale, tax and legal bottlenecks, increased off-balance sheet exposure of Indian banks need for an independent regulator etc. which need to be immediately resolved to enhance the investors' confidence in the Indian derivative market.

Sehgaland Rajput (2013), to examine the price discovery and volatility spill-over relationship for Indian commodity futures market, found the dominant role of futures in price discovery for these commodities.

Sendhil et al. (2013) observed that the price transmission occurs due to the flow of market information which is a consequence of development in information technologies; the speed of convergence depends on the market regulations and policy changes; and market integration is an indicator of efficient functioning of markets. The relationship between futures market priceand spot market price in terms of price discovery has revealed the occurrence of hedging in most of the contracts. In particular, futures market dominates the process of price discovery.

Aggarwal et al. (2014) in assessing price discovery and hedging effectiveness of commodity futures after the shift in trading of commodity futures shifted from single commodity, regional exchanges to national exchanges that trade multiple commodities this change concluded that, on average, futures prices do discover information relatively efficiently, but helps to manage risk less efficiently.

Sridhar etal. (2016) found that futures and spot price of silver are co-integrated but they are not showing cause and effect relationship.

Raghavendra et al. (2016) examined the relationship between the spot and the futures price of the agricultural commodities in India and found that there exists long run equilibrium relationship in most of the commodities undertaken in the study.

Wautelet (2017), identified that the futures prices are reflected by available information about the present and the expected supply, demand and inventory levels, all of which affect directly the spot price of the commodity.

Kumar, Gupta and Taneja (2018) pointed out that there exist co-integration is spot and futures price of gold. Although bi-direction causality exist in Gold but in case of Gold Guina futures does not cause spot price.

A Report by Staff of the Market Intelligence Branch Division of Market Oversight U.S. Commodity Futures Trading Commission (2018), mentioned the U.S. futures markets remain the premier price discovery mechanism for the world as they are able to digest information quickly and readily accommodate heightened volatility.

There is dearth of literature relating to the price discovery mechanism specifically for the bullions in India. As mentioned, the bullions are highly sought-after by the common people in India which would increase the interest of the common people also to understand the effectiveness of futures market in price risk management if the study is done with respect to bullions i.e. the gold and the silver.

Objective of the Study: The commodity futures market is relatively new compared to other financial markets in India. In developed countries, futures market play important role in managing risks associated with fluctuations in the prices of the underlying assets. In India, commodity futures market has been introduced with the same expectation, but it is still in its early stage and going through continuous structural changes. In the present study, the Bullions (Precious Metals) have been taken into consideration for assessing the effectiveness of commodity futures market in price risk management. The casual relationship between the spot and the futures prices of the underlying commodities should be examined both in the short run as well as in the long run in the process of price discovery. This would help the investors in considering the futures market for their risk and return analysis.

Therefore, the objectives of the study is as follows:

- To provide a brief of recent developments in the Indian commodity futures market
- To assess the price discovery in the spot and the futures price in Indian Bullion (Precious Metal) Market

Data and Research Methodology: As it is apparent that the management of risk, associated with price fluctuations in the spot market of the underlying commodities, is necessary, it is important to develop a risk management tool for protection of such risk. In the developed countries the futures markets play important role in this regard. But in India, the futures market is at its early stages and a continuous endeavour on the part of the government is being taken for its betterment. Thus, it is important to assess the Indian commodity futures market in terms of its effectiveness as a tool for risk management. In this study the Bullions (Precious Metals) i.e. the gold and the silver, being the most sought-after of all the commodities for their various industrial and other usage have been considered for such assessment. The futures market for the commodities in India can only be considered as risk management tool, if it takes important role in the price discovery process. The existence of causal relationship in the spot and the futures price in the process of price discovery of the concerned commodities should be examined. A thorough analysis and reporting of this would explore the commodity futures market further as well as would provide the investors concerned with clear understanding in using futures contracts for risk management. Therefore, in the study, the existence of long run association is examined which would indicate the scope of price risk management through futures trading. Further, the detailed analysis of the long run and the short run causality would indicate respectively the efficiency of both the spot as well as the futures markets in terms of incorporation of related information into the prices of the concerned commodities and the possibility of arbitrage opportunity. This would help in getting more clear understanding of the commodity futures market in India.

For the purpose of the study, data have been collected from the secondary sources. The data relating to daily spot and futures prices of Gold and Silver have been collected from Meta Stock Software and from the website of Multi Commodity Exchange respectively for the study period from January, 2009 to December, 2017. Data relating to other aspect have been

collected from various websites, published literatures like books, journals, reports, articles, working papers and web materials.
As convention to eliminate the scale effect, the prices are converted to their logarithm values. Now, to examine the presence of price discovery in the spot market and the futures market of the precious metals, daily spot price and futures prices for the entire study period have firstly been tested for the presence of unit-root applying Augmented Dickey Fuller (ADF) Test and the Phillips-Peron Test. The null hypothesis is as follows:

H_0: There is unit root i.e. the series is non-stationary

Against the alternative hypothesis

H_1: There is no unit root i.e. the series is stationary

If both the spot price series and the futures price series are non-stationary at level and stationary at their return series, i.e. when they are first differenced, they are considered to be integrated of order one. Then Johansen Co-integration Test can be applied to confirm long-run equilibrium relationship between the spot and the futures prices. If the two price series are co-integrated then there exist some short of relationship between them. If the long run relationship is confirmed i.e. two series of the concerned commodity is found co-integrated then the Vector Error Correction Model can be applied to confirm the long-run equilibrium relationship in their respective spot and futures prices. To examine short run causality, the Wald Test for Granger Causality are also applied. If the two price series i.e. the spot and the futures price of any commodity is not found to be integrated of order one then the Unrestricted VAR model is applied to examine causal relationship.

The Software used for the analysis are

- Microsoft Office
- EViews 9

Analysis and Findings: The following table shows the tests of Unit-root of spot and futures prices and their return series of Gold and Silver (i.e. the series of first differences of spot and futures prices).

Table 3: Results of Unit root Test

Commodities	**Price Series (at level)**		**Return Series (at first difference)**	
	ADF Test (t-statistics)	**Phillips-Perron Test (t-statistics)**	**ADF Test (t-statistics)**	**Phillips-Perron Test (t-statistics)**
GOLD				
• Spot Price	-2.029383	-2.033299	-49.68116**	-49.84264**
• Futures Price	-2.055581	-2.030243	-52.36299**	-52.27901**
SILVER				
• Spot Price	-2.240452	-2.263009	-51.26638**	-51.24012**
• Futures Price	-2.190913	-2.277804	-53.79543**	-53.68032**

(**) indicates significant at 1% level.

Here, the price series (i.e. at level) of both the spot and futures prices of gold and silver are showing presence of unit root indicating that they are non-stationary. But the return series (i.e. at first difference) of both the spot and futures prices of gold and silver are stationary by rejecting the null hypothesis of presence of unit root. As both the spot and futures price series of gold and silver are non-stationary at level and stationary at their first difference, therefore they are integrated of same order (i.e. integrated of order one). Here both the Augmented Dickey–Fuller Test (ADF Test) and Phillips-Perron Test have been applied to double check the results and they are showing the same fact.

As discussed, if two series are non-stationary at level and stationary at first difference, they are said to be integrated of same order. Here, spot price series and futures price series of gold and silver are non-stationary at level and when they are first differenced, they are stationary. It indicates that they are integrated. Now Johansen Co-integration Test has been applied to check whether there exist stable long run relationship between the spot prices and futures prices of gold and silver. Theoretically, if two series are co-integrated then there is causality at least in one direction. Before the Johansen Co-integration Text is applied on the series, it is important to identify the lag length to be employed. Because inappropriate lag selection may lead to over or under parameterisation of the model. Here, Akaike Information Criterion (AIC) has been used to select the optimum lag length. The table 4 shows the optimum lag as identified by the Akaike Information Criterion along with other lag selection criterion.

Table 4: Lag length Selection

Lag	LR	FPE	AIC	SC	HQ
0	NA	2.63E+12	34.27362	34.27838	34.27535
1	17573.8	1.92E+09	27.05085	27.06514	27.05604
2	752.21	1.41E+09	26.74458	26.76839	26.75324
3	179.693	1.32E+09	26.67386	**26.70719***	26.68598
4	**24.56455***	**1.31e+09***	**26.66702***	26.70988	**26.68260***
Lag Selection Criterion (GOLD)					
Lag	LR	FPE	AIC	SC	HQ
0	NA	5.57E+13	37.32589	37.33065	37.32762
1	14546.35	1.42E+11	31.35777	31.37203	31.36295
2	223.1484	1.30E+11	31.26937	31.29314	31.27801
3	92.26145	1.26E+11	31.23471	31.268	31.24681
4	**41.27157***	**1.24e+11***	**31.22100***	**31.26380***	**31.23656***
Lag Selection Criterion (SILVER)					

Here, most of the lag selection criterion have identified lag 4 as the optimum lag to be employed both for the Gold as well as for the Silver. Johansen Co-integration Test is also very sensitive about the lag to be employed. Now, the Johansen Co-integration Test is applied by taking the Gold and Silver spot and futures price series. The results of Johansen Co-integration Text is as follows:

*Table 5: **The Results of Johansen Co-integration for Gold***

GOLD	No. of CE(s)	Max Eigen Statistic	Critical Value (at 5%)	Prob.
Spot Price & Futures Price	None *	70.61664	14.2646	(0.0001)
	At most 1 *	4.465981	3.841466	(0.0346)
Max-eigenvalue test indicates 2 co-integrating eqn(s) at the 0.05 level * denotes rejection of the hypothesis at the 0.05 level				
GOLD	**No. of CE(s)**	**Trace Statistic**	**Critical Value (at 5%)**	**Prob.**
Spot Price & Futures Price	None *	75.08262	15.49471	(0.0001)
	At most 1 *	4.465981	3.841466	(0.0346)
Trace test indicates 2 co-integrating eqn(s) at the 0.05 level * denotes rejection of the hypothesis at the 0.05 level				

Table 6: The Results of Johansen Co-integration for Silver

SILVER	No. of CE(s)	Max Eigen Statistic	Critical Value (at 5%)	Prob.
Spot Price & Futures Price	None *	204.6272	14.2646	(0.0001)
	At most 1 *	5.099807	3.841466	(0.0239)
Max-eigenvalue test indicates 2 co-integrating eqn(s) at the 0.05 level * denotes rejection of the hypothesis at the 0.05 level				
SILVER	**No. of CE(s)**	**Trace Statistic**	**Critical Value (at 5%)**	**Prob.**
Spot Price & Futures Price	None *	209.727	15.49471	(0.0001)
	At most 1 *	5.099807	3.841466	(0.0239)
Trace test indicates 2 co-integrating eqn(s) at the 0.05 level * denotes rejection of the hypothesis at the 0.05 level				

Here, both the Max Eigen Statistic and Trace Statistic suggest that there are two co-integrating equations by rejecting both the null hypothesis of having 'none' as well as 'at most 1' equation being co-integrated at 5% level of significance. As it is found that the spot price and futures price of both gold and silver are co-integrated, the Vector Error Correction Model has been run to check the causal relationship among the price series.

Table 7: The Empirical results showing Vector Error Correction Terms of VECM

GOLD						SILVER				
Error Correction:	D(SPOT)		Error Correction:	D(FUTURES)		Error Correction:	D(SPOT)		Error Correction:	D(FUTURES)
CointEq1	-0.046598** -0.01452 [-3.20995]		CointEq1	-0.083539** -0.01992 [-4.19408]		CointEq1	-0.243465** -0.03004 [-8.10593]		CointEq1	-0.182027** -0.03854 [-4.72315]
D(SPOT(-1))	-0.426188** -0.02757 [-15.4588]		D(FUTURES(-1))	-0.048747 -0.03 [-1.62475]		D(SPOT(-1))	-0.361298** -0.03337 [-10.8283]		D(FUTURES(-1))	0.028321 -0.04113 [0.68862]
D(SPOT(-2))	-0.16827** -0.02958 [-5.68859]		D(FUTURES(-2))	-0.040078 -0.03576 [-1.12074]		D(SPOT(-2))	-0.214231** -0.03234 [-6.62477]		D(FUTURES(-2))	0.038506 -0.04161 [0.92549]
D(SPOT(-3))	-0.073318** -0.02816 [-2.60325]		D(FUTURES(-3))	0.001171 -0.03562 [0.03287]		D(SPOT(-3))	-0.18068** -0.02884 [-6.26590]		D(FUTURES(-3))	0.082481 -0.03851 [2.14192]
D(SPOT(-4))	0.012691 -0.02097 [0.60512]		D(FUTURES(-4))	0.053329 -0.03064 [1.74047]		D(SPOT(-4))	-0.029125 -0.0203 [-1.43450]		D(FUTURES(-4))	0.179072 -0.03131 [5.71863]
D(FUTURES(-1))	0.550513 -0.02196 [25.0645]		D(SPOT(-1))	0.062123 -0.03766 [1.64958]		D(FUTURES(-1))	0.472514** -0.03155 [14.9755]		D(SPOT(-1))	-0.04035 -0.04349 [-0.92779]
D(FUTURES(-2))	0.255808** -0.02618 [9.77151]		D(SPOT(-2))	0.06517 -0.04041 [1.61285]		D(FUTURES(-2))	0.278133** -0.03192 [8.71330]		D(SPOT(-2))	-0.008983 -0.04215 [-0.21313]
D(FUTURES(-3))	0.077799** -0.02607 [2.98374]		D(SPOT(-3))	-0.003268 -0.03847 [-0.08495]		D(FUTURES(-3))	0.157122** -0.02954 [5.31832]		D(SPOT(-3))	-0.151646 -0.03759 [-4.03474]
D(FUTURES(-4))	0.028951 -0.02243 [1.29068]		D(SPOT(-4))	-0.01454 -0.02865 [-0.50751]		D(FUTURES(-4))	0.106454** -0.02402 [4.43113]		D(SPOT(-4))	-0.048526 -0.02646 [-1.83367]
C	4.933652 -3.71217 [1.32905]		C	5.933075 -5.07084 [1.17004]		C	6.168403 -11.7559 [0.52471]		C	7.639882 -15.323 [0.49859]
(**) indicates significant at 1% level										

In Vector Error Correction Model (VECM), the error correction term of the first equation being negative and significant in all the cases indicate that there existsbi-directional long run causality in both the Gold and Silver. The notable fact in case of both the precious metals is that although there is causality running from the spot price to futures price, but none of the spot price in any lag has significant impact on the futures price. On the other hand the futures price of gold, at its second and third lags, has significant impact on the spot price and in case of silver, the futures price, at its first, second, third and fourth lags, has significant impact on the spot price. Therefore, the efficiency of futures market over the spot market is evident in vector error correction model. As it is customary to check the residual diagnostic of vector error correction model (VECM), all the equations are not showing presence of Serial Correlation and Heteroskedasticity.

Going further to check the existence of short run causality, Wald Test has been performed with the null hypothesis that the coefficients at different lags are zero as follows:

H_0: $C_1 = C_2 = ... = C_n = 0$

Table 8: Empirical Result of Wald Test

	GOLD			SILVER		
Spot Price being the dependent variable	Test Statistic	Value	Probability	Test Statistic	Value	Probability
	Chi-square	663.0681	**(0.000)**	Chi-square	233.5257	**(0.000)**
Futures Price being the dependent variable	Test Statistic	Value	Probability	Test Statistic	Value	Probability
	Chi-square	4.996512	**(0.2877)**	Chi-square	25.31432	**(0.000)**

The result indicates that there exist short run causality running from gold futures price to spot price but there exists no short run causality running from gold spot price to futures price. But, in case of Silver, there exists bidirectional short-run causality. The presence of short run causality indicates the scope for arbitrage opportunity. Therefore, in gold arbitrage opportunity is less than that of in silver. It is also important to mention that the presence of significant arbitrage opportunity i.e. having short run causality in the market provide the indication of more efficiency in incorporating information in the prices of the concerned commodities and enable the investors to avail such opportunity.

Now, to summarise the results of the empirical tests it has been found that, there exist bi-directional long run causality in both the commodities and as far as short run causality is concerned the bi-directional short run causality is found in case of silver. But in case of gold, it is the futures price which is causing spot price in the short run.

The following table shows the summary of findings:

Table 9: Summary of Empirical Result of Causal Relationship of Gold and Silver

Causal Relationship	Existence of Relationship	
	Gold	Silver
Long run causality form Futures price to Spot Price	Yes	Yes
Long run causality form Spot price to Futures Price	Yes	Yes
Short run causality form Futures price to Spot Price	Yes	Yes
Short run causality form Spot price to Futures Price	No	Yes

The empirical evidences show strong casual impact of futures price on the spot price in both the commodities. Although there exist long run causal relationship running form spot price to futures price but not the spot price at any specific lag is showing significant impact on the futures price. Even, in case of gold there exists no short run causality running from the spot price to the futures price. All these suggest that the futures market for the precious metal commodities is playing significant role in discovering prices than the spot market. The probable reason for such may that the futures market, being technologically well equipped, is more efficient than the spot market. Thus, all the price related information are getting incorporated in the futures market first and gradually, through the arbitrage activities, the futures price is impacting the price at the spot market. This particular tendency in the market would help the different participants in the precious metal market to manage their risk accordingly by having exposure in the futures market form the adverse price fluctuations. The study would help investors in management of risk as follows:

- As it is evident form the study that the futures market for the bullions are more efficient in incorporating related information in the price of the concerned commodities than the spot market, the futures contracts can be considered as important risk management tool.
- One can predict the spot price of the concerned commodities at any futures date by analysing the futures price of the commodities as the study shows that the spot and the futures prices are co-integrated for both the commodities.
- The study also indicates the lag period's futures prices that significantly impact the spot price, which would facilitate more accurate prediction.
- The short run causality indicates the presence of arbitrage opportunity in the spot and the futures market of the commodities. The study indicates that the investors may avail arbitrage opportunity in the silver market but not in the gold market and making risk-less profit using the difference in the prevailing prices in the spot and the futures market

Conclusion and Recommendations: Although there has been a long presence of forward market in India, but the commodity futures market is recent in origin and hence less explored. The Bullions (precious metals) i.e. gold and silver are highly sought by the people in addition to industrial demand of these metals. A sound risk management should be required so as to safeguard the participants in the bullion market. An attempt has been made in this study to present recent developments in the commodity futures market in India and to assess the price discovery in the spot and futures market of the precious metals. The empirical evidences suggest that there is strong casual impact of the futures price on the spot price of the precious metals. The possible reason, as identified, may be that the futures market being technologically advanced and well organised can incorporate the information in the prices faster that the spot market. There after the arbitrage activities are playing an important role in the long run co-integration process in adjusting the spot price. This scenario in the market, as identified in the study, would help the participants to manage the risk relating to the adverse price movements. But equal efficiency in both the spot and the futures market of the precious metal is the most desirable market condition for the participants. The following may be considered as the recommendations for the betterment of the scenario:

- Spot market for the bullions are unorganised and not regulated directly by any regulatory body. But it has important role to play in managing risk and return. Therefore a well organised and regulated spot market is required in the economy.
- Awareness regarding the futures market is also essential. Because most of the people dealing, directly or indirectly, with the precious metals are not exposed to futures market.
- Mere awareness may not solve the problem. Rather the regulatory bodies on behalf of the government should provide technical knowledge for participation in the futures market.

Scope of further study: There are various dimensions to study of Indian futures market that would enrich the literature. For example:

- The perception of the investors towards the futures market may be studied which would give detailed idea to the regulators for future planning.
- Study regarding the market structure of commodity futures market would enlighten the participants.
- Two recent developments in the taxation e.g. the introduction of Commodity Transaction Tax (CTT) in the 2013 and the introduction of Goods and Service Tax (GST) in the year 2017 have great impact on the commodity futures market. These two taxes can be studied specifically in relation to the precious metals so as to understand the risk management scenario better.

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Annexure:

As it is customary, the Descriptive Statistics of Spot and futures price series of Gold and Silver for the period January 2009 to December 2017:

	GOLD SPOT	GOLD FUTURES	SILVER SPOT	SILVER FUTURES
Mean	25185.11	25183.75	41431.42	41729.88
Median	27295	27281	40849	41164
Maximum	32943	34439	73288	71554
Minimum	12935	12787	17700	17484
Std. Dev.	5382.538	5367.263	11236.97	11417.64
Skewness	-0.813972	-0.814152	0.017369	0.037556
Kurtosis	2.229839	2.249915	2.291835	2.279844
Jarque-Bera (Probability)	329.6056 (0.0000)	326.6227 (0.0000)	51.17115 (0.0000)	53.36601 (0.0000)
Observations	2439	2439	2443	2443
Non- Log prices have been considered here.				

SIX THINKING HATS APPROACH ON GIG ECONOMY: A TRIDIMENSIONAL PERSPECTIVE

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Abstract:

The world has witnessed three industrial revolutions so far (Rifkin, 2011). Employment today has shifted from being a lifetime contract to a taxicab relationship in four phases; Employment 1.0 (the industrial revolution), Employment 2.0 (the rise of trade unions and employment legislation) and Employment 3.0 (globalization, outsourcing, technology substitution of labour, and the decline of trade unions) and 4.0 (gig economy). The fragmentation of work has led to the emergence of the "gig economy", which is heralded as the fourth industrial revolution (Schwab, 2017; Horowitz 2011). The gig economy consists of markets where independent consultants, contractors, and freelancers put up their portfolios and work with companies on short-term contracts. Collectively referred to as the collaborative, sharing, or gig economy, businesses of this type are anticipated to comprise a substantial portion of the economy in the coming years with serious economic implications(Sundararajan2014), including the disruption of long-standing industries (Morse 2015) and the displacement of incumbents (Zervas et al. 2015). This paper attempts to study Gig economy in Indian context from tridimensional perspective; the gig economy (Government), the employer and the gig worker. For holistic understanding of the topic, a six thinking hats approach is adopted.

Key Words:

Gig Economy, Gig Jobs, Six Thinking Hats, Tri-Dimensional Perspective

The world has witnessed three industrial revolutions so far (Rifkin, 2011). Employment today has shifted from being a lifetime contract to a taxicab relationship in four phases; Employment 1.0 (the industrial revolution), Employment 2.0 (the rise of trade unions and employment legislation) and Employment 3.0 (globalization, outsourcing, technology substitution of labour, and the decline of trade unions) and 4.0 (gig economy). The fragmentation of work has led to the emergence of the "gig economy", which is heralded as the fourth industrial revolution (Schwab,2017;Horowitz 2011). The gig economy consists of markets where independent consultants, contractors, and freelancers put up their portfolios and work with companies on short-term contracts. It was Jack Kerouac who first used the word "gig" to describe a job that he held temporarily as a part-time brakeman for a San Jose railroad company. Gig now means the division of work into smaller components, which contracted out as short term projects or gigs to independent contractors, part timers or free lancers who commit to performing gigs for a payment (Friedman, 2014). Lifetime jobs have now almost completely disappeared, and the technological revolution we are experiencing has created new opportunities for jobs. The introduction of new business models spawned by digital platforms has captured the attention of scholars and policy makers alike (Parker and VanAlstyne 2005). Collectively referred to as the collaborative, sharing, or gig economy, businesses of this type are anticipated to comprise a substantial portion of the economy in the coming years with serious economic implications (Sundararajan 2014), including the disruption of long-standing industries (Morse 2015) and the displacement of incumbents (Zervas et al. 2015). This paper attempts to study Gig economy in Indian context from tridimensional perspective; the gig economy (Government), the employer and the gig worker. For holistic understanding of the topic, a six thinking hats approach is adopted.

India, despite achieving an impressive and steadily rising economic growth in recent years, is unsuccessful in creating decent employment opportunities for the youth joining the workforce as well as shifting informal employment to formal for those who are a part of labour market. The youth presently make up close to 35% of the population and the Indian workforce is expected to increase to approximately 600 million by the year 2022 from the current estimated 473 million. So the biggest challenge is to chart a path of development that India should follow to ensure employment generation. Considering a sluggish job market and worrying job scenario in India, the gig economy does hold a promise. Given the rapid growth of India's working population, many have been forced to gig because the regular job market has jobs in scarcity and the ones that are there has cut-throat competition. Gig economy in western countries is fairly developed, but it is comparatively in nascent stage in India. But looking at the employment issues and challenges in India, gig economy has the potential to be a feasible solution.

What is Six Thinking Hat?

Six Thinking Hats® is a practical and effective management tool developed by Edward De Bono (1985), one of the pioneers of brain training. For over 50 years, he has presented new and interesting ideas through his books, courses, games and speaking engagements. Dr De Bono invented the L Game (1968), coined and introduced the concept of Creativity Step by Step (1970), Lateral Thinking for Management (1971), Po: A Device for Successful Thinking (1972), Textbook of Wisdom (1996), Simplicity (1999), New Thinking for the New Millennium (1999), How to Have A Beautiful Mind (2004), Six Value Medals (2005), and H+ (Plus): A New Religion (2006), among others. Six Thinking Hats is a simple and effective "parallel thinking" process that helps people to walk outside the limits of small-mindedness, unidirectional thinking and fixed positions (De Bono, 1985). The Six Thinking Hats method includes the fundamental elements of efficient thinking focusing on a specific virtual colour "hat," thinking in one particular direction at a time instead of switching from one idea or thought to another. These thinking elements include the following: Blue hat thinking: The Planner—managing and controlling thinking • White hat thinking: The Prober—focusing on the facts • Red hat thinking: The Partner—using intuition and feelings • Yellow hat thinking: The Provider—generating positive ideas • Black hat thinking: The Preventer—evaluating the risks and potential problems and • Green hat thinking: The Proposer—searching for solutions to overcome barriers. When teams engage in Six Hats Thinking, they practise "parallel thinking," thus speeding up the discussion, reducing meeting time by up to 50 per cent and increasing their productivity manifolds. This has been proven over the years by many top-ranked organizations operating in different sectors and located in different countries across the globe. A few to mention are as follows: IBM, Prudential, GM, BT (UK), NTT (Japan), Nokia (Finland), Mondadori (Italy), Total (France), Siemens (Germany), Bosch (Germany) and Ericsson (Sweden).

Gig economy and Six Thinking Hats:

Being a relatively new concept in India, Gig economy is more often poorly understood by all the stakeholders, including its benefits and overall impact. A Six Thinking Hats approach may enable the stakeholders understand this better. Since this technique encourages the most pessimistic people to think of positive outcomes of a given situation, resulting in those who have not yet given a thought to gig jobs to give a start and those who have started but are stuck midway because of lack of clarity, to get a boost to move ahead. So, let us put on different hats to examine if and how gig economy can be a boon to India.

Blue Hat: The Planner

A blue hat opens the discussion, explaining the topic. It expresses to make a clear and convincing case for the value that the gig economy can deliver to achieve strategic employment objectives of any nation. Hence, it proposes embracing gig economy and to wear different hats in order to understand it holistically. It plans the sequence of hats to be worn, thus opening the discussion with white (to present background information on gig economy), followed by red (to gauge the feelings related), yellow (to capture positive aspects), black (to study barriers and limitations), green (to develop new alternatives to overcome barriers), and finally, concluding the discussion with blue hat thinking. Accordingly, the different thinking approaches are mentioned below.

White Hat: The Prober

It attempts to answer few questions on the basis of facts and available information:

A) Gig Economy

a) What is Gig economy?

A gig economy is an environment in which temporary employment is common and organizations contract with independent workers for short-term engagements. In today's workforce, people tend to change jobs several times throughout their working lives; the gig economy can be seen as an evolution of that trend. Embracing the open-talent economy helps organizations blend full-time employees with short-term consultants, making them nimbler and more efficient. Unlike traditional consultants—such professionals often get embedded in the organization, assimilate its ways of working and cost a third of what a "traditional" consultant might, while bringing a wealth of experience and specialist skill sets.

b) Gig economy -global scenario (facts and reports)

- 20-30% of the workforce in developed markets is engaged in independent work. (McKinsey).
- By 2020, 40% of American workers would be independent contractors.
- Many of the countries of Africa and SE Asia have a high percentage of jobs that are temporary / contract jobs.
- In a few countries in the Middle East, only citizens are allowed to have permanent positions, while foreigners are encouraged to enter with temporary work visas.
- America is well on its way to establishing a gig economy, and it is estimated that as much as a third of the working population is already working in some sort of gig capacity.(1)
- In Europe, Spain and Poland have above-average levels of temporary workers, about 3x the level found in UK and 2x the level in France or Germany.
- Approximately 150 million workers in North America and Western Europe have switched over to gig jobs, either by choice or forcefully.
- In Asia, the concept of the open-talent or gig economy is in its infancy, though it has definitely become part of a changing cultural and business environment. [7]
- According to a Randstad US study 11 percent of the workforce is currently engaged in non-traditional form of employment and the projections show nearly 50 percent of the workforce would belong to the temporary, freelance or contractual category by 2019 (Strauss, 2017).

c) Gig economy - Indian scenario (fact and reports)

- In India, the emergence of the gig economy is seen in the popularity of Ola and Uber services. The nature of work allows the drivers to be self-employed.

- The IT companies are supporting the gig economy as both the parties benefit from greater flexibility, diversity and inclusion (Thammaiah BN, 2016).
- A study by Kelly OCG on Workforce Agility Barometer among Indian firms reveals that for 56 percent of the Indian firms, the proportion of temporary workers is more than 20 percent and the numbers are going to increase over the next two years with more than 71 percent organizations hiring a bigger chunk of contingent workers (Sen, 2017).
- Another study by Manipal Global Education corroborates that the total number of independent workers in India are 15 million next to the US where the number of freelancers are supposed to be 60 million.
- India has more than 5 million registered users on Freelancers.com, higher than total number of registered users in US which is 3.2 million (freelancers.com)
- India's independent workforce is estimated to have around 1.5 crore freelancers, contributing to 40% of the global freelancing business.
- In India, while start-ups were the early adopters, multinational companies, consulting firms and large enterprises are embracing the concept.
- Indian knowledge professionals are increasingly opting for independent gigs as a matter of choice and are seeking flexibility and purpose in their career (Our Future Of Work survey)
- There is also an industry estimate of the Indian 'freelancers' market size growing to whopping \$20-30 billion by 2025.
- Of the leading metropolises in the country, New Delhi, Mumbai and Bangalore contribute 27.2%, 12.4%, and 12.9% respectively to all flexible work opportunities available in India."
- Recruiters are rethinking their remote work programmes, 7.7 per cent of all companies posting on the Indeed platform in India offer flexible work opportunities. 2.8 per cent of all job postings on the site from India are for part-time or contractual roles. (global job site, indeed)
- India might spearhead the move towards a gig economy, given that 64 per cent of its population will be in the 20-35 age-group by 2021, (2013/14 Economic Survey)
- In India, freelancing as an employment option has not yet penetrated the rural landscape. Any regulation that would lead to the rise of a gig economy in rural areas would be a step in the right direction.
- India is expected to be one of the leading gig economies in Asia Pacific, as reports estimate the global market to be valued at \$335 billion by 2025.
- Indian IT Companies such as Infosys, Wipro and Persistent Systems are exploring and

experimenting with the uberisation of workforce. They are hiring people on a project-to-project basis and mixing freelancers with regular employees in teams (Vaidyanathan and Bose, 2017).

- In India, a report by job search portal Indeed found that workers are ready to swap the standard benefits of a permanent job (employee provident fund, insurance, gratuity, etc.) for better flexibility that allows them a work-life balance where they can pursue more than one interest or specialization. (Ray, 2018)

d) Drivers of gig economy

- Growth of digital platforms which decreased the need for some types of jobs and automating others.
- Increasing demand for flexibility amongst job seekers, specially millennials.
- The proliferation of websites and mobile apps designed to help employers and people seeking part-time work find each other.
- The rise in millennials in workforce. Millennials are attracted to gigs as their aspirations for variety, money and work-life balance are met (Milligan, 2017).
- A slowdown in both regional and global economies, organizational downsizing and cost-cutting have contributed to the rise of professionals opting for flexible arrangements, sometimes by design and sometimes owing to the lack of other options.
- Slow penetration of the millennial work culture into the labour market also encouraged short term contract engagements.
- Upgraded technologies like artificial intelligence (AI), robotics and automation, are shaping the future of gig workforce.

e) Significance of gig economy in India

India today is facing severe job crunch. It can only be created by self-employment or the gig economy. For example, those who were laid off by many companies can become gig workers and they can sit at home and work for companies situated somewhere in the world. Gig economy can be the answer to talent supply chain challenges faced by professional or technology sectors. Gig economy is cutting across generations, is no longer restricted to the services sector and raking in high value gigs. Traditional big industries from manufacturing to IT to banking to telecom are introducing automation and Artificial Intelligence to take away jobs that would traditionally be done by humans and is prone to human error. The emergence of the gig economy is solving the problem of talent scarcity in sectors requiring professional and technical skills.

B) Gig workers

a) Who are gig workers?

The word gig generally refers to short acts of independent/ freelancing artists. In the context of the gig economy and employment, the word assumes a new meaning. Here, gig means the division of work into smaller components, which contracted out as short-term projects, or "gigs" to "independent contractors", "part-timers" or "freelancers" who commit to performing these gigs for a payment (Friedman, 2014). The gig-economy type of work can be categorized into two: "crowdwork" and "work on-demand via apps" (Stefano, 2016).

b) What personality and skills should gig workers possess to be successful?

Here are the five traits Good & Co identified that lend themselves to gig economy success. *1. Creativity*: Each project is different –rooted in a different culture, working with different people, involving different parameters. This calls for an ability to approach projects creatively in this changing environment.

2. *Curiosity:* Since a gig worker works on a wide array of projects across different companies, a natural curiosity and willingness to learn is a prerequisite. A curious, open-minded, intellectual and flexible attitude is valuable to allow gig workers to take advantage of the opportunities available to them.

3. *Confidence:* Good communication skills and a social confidence to engage with new people in new territory are key to success in the gig economy.

4. *A powerful personal brand:* Developing a network and self-branding is essential for gig who is regularly in the market for new work. Without connections or a recognizable portfolio, gig workers will struggle to avail new projects when old projects or jobs end.

5. Apolitical: The impermanent nature of gig jobs make them less engaged at workplace politics as compared to the permanent employees. Focus on personal performance than workplace politics is essential requirement for success. (Adam C. Uzialko, 2017).

C) Gig employers

a) Which sectors are associated with gig jobs?

- IT, Media, public administration, transportation, retail, manufacturing, real estate, hospitality, tech help, management, medicine allied, photography, freelance writing, event management and education constitute flexible job opportunities.
- Web and, mobile development, web-designing, internet research, accounting, graphic design and consulting and data entry are the key focus areas for Indian freelancers.
- Gig assignment is available in data visualization, data mining, digital marketing and social media in the IT domain. Other specialization areas are Google digital marketing, data science, analytics, Android and iOS app development programs. Freelancing has opportunities in fin-tech, health-tech, retail-tech, sales and analytics (Anand and Pillai, 2017).
- According to freelancer.com, the top projects that have been executed by Indian freelancers include Hypertext Preprocessor based web development, Graphic Design, Website Design, HTML,

Word Press, Logo Design, SEO, Internet Marketing and Mobile App Developments (Phani Raj, 2017).

Red Hat: The Partner

A) What gig workers feel?

For the professionals, who have chosen Gig Job as their career path, the emotion may vary from positive to negative.

Positive emotions:-

- *Curiosity*: For a Gig Professional, each assignment is a new assignment. Thus, curiosity is an on-going emotion associated with a gig professional.
- *Relief:* Gig economy at present occupies substantial portion of the economy. Thus, any feeling of anxiety is countered by a feeling of relief seeing so many professionals engaged in gig jobs.
- *Happiness*: The best thing about a gig professional is his/her ability to balance work from family. Being able to take control of one's time, while being employed gives a sense of delight.
- *Pride:* Working in the field of expertise and choice, gives a sense of pride to the professional about their work and about themselves.
- *Elation:* Gig jobs don't demand the same 9-5 commitment, and offers a flexibility that no regular job can offer. This sense of control, combined with doing the job one is good at results in a feeling of elation for the gig professional.

Negative emotions:

- *Anxiety:* Gig Professionals don't have a regular job and thus constantly need to evolve themselves. This results in anxiety for the professional
- *Envy:* At times a lack of assignment or delay in payments, may cause a feeling of envy among the professionals.
- *Worry:* Lack of regular flow of income and a well-defined career path is a major reason for worry for a gig professional.
- *Frustration:* Lack of continuity in bagging assignments may frustrate gig workers. Even when there are assignments, they might not resonate with their skill-sets and interests.
- *Depression:* When they don't get paid rationally for the work done or when the payments are not timely, the professionals are unable to meet their financial obligations and this is a major cause of worry for them.

B) What employers feel?

Gig economy presents a host of opportunity as well as threat for the corporate.

- *Threat*: Organizations while embracing gig economy, feel a threat of data breach and employee shortage when the organizations actually need them.
- *Ambiguity*: Due to lack of clarity on gig jobs policies, employers are ambigious on this aspect and hence

unable to capitalize gig economy in full throttle.

- *Happy:* Despite its drawbacks, employers are happy that Gig Economy is a great opportunity for cutting costs and inducing dynamism.

C) What Economy feels?

Gig Economy, presents a mixed bag to the regulators as well. It is an opportunity for employment generation, at a time when most of the government has failed to do so.

- *Sigh of Relief*: The gig economy has been an avenue for employment generation at a time when employment in most of the sectors is dipping. In many cases, gig professions have emerged as the only source of employment. So, gig economy has brought a sigh of relief to the government in terms of job creation.
- *High stress:* As Gig Economy is mostly unregulated, the chances of exploitation of the gig professionals is very high which brings government under high tress to come up with a regulation to take care of this.

<u>Yellow Hat: The Provider</u>

Gig Economy comes with its own set of promises. It offers a win-win situation to all the stakeholders. The benefits of Gig Economy for the three stakeholders are:

A) Benefits to Gig workers:

- *Independence:* Gig workers work independently and enjoy the status equivalent of being self-employed. They feel ownership over what they produce and over their entire professional lives. . Becoming independent contractors in a gig economy gives them more control over the work they do, and over their careers overall, helping them build career independence, and simultaneously allows them to choose business partners, clients, and vendors whose values agree with their own.
- *Flexibility and Autonomy:* Gig workers; enjoy the flexibility and autonomy related to working hours and work life balance on their jobs, which permanent employees always seek for. These flexibility is specially sought for gen Y (Milligan, 2017).
- *Availability of options:* Gig workers often have flexibility to choose assignments that make the most of their talents and reflect their true interests.
- *Financial Compulsions:* Gig jobs often give opportunities for those interested to add on extra income to their kitty.
- *Testing for entrepreneurship:* Becoming an entrepreneur is not an easy job, and the gig economy is a great way for people to test their entrepreneurial acumen before diving in.
- *Delusion with traditional jobs:* The thought of forced 8 hours duty

along with co-workers drama and long distance commutations does not appeal many. Gig jobs offer opportunities for them.

2. Benefits to the Employers (Organization);

- *Cost Control: Organizations can be benefited by getting an escape to employee* welfare emoluments like pension, gratuity etc. Similarly, they save time and cost related to training and development.
- *Dynamism:* Organizations benefit from niche expertise of gigs as and when required. Startups find gig works to their advantage for certain domains like accounting, legal advice etc. Uncertain business environments often tempt employers to go for gig workers.
- *Ease in hire and fire:* Mobile workforce provides companies with fluid human capital, allowing them to swiftly scale up and down on a project basis. It takes 2.7 days on an average to hire a gig from a talent marketplace, rather than 34 days for traditional recruitment methods, thus making the firing process more agile and responsive.
- *Focus on core competencies:* Organizations benefit from scalability as they can keep core operations focused on what they do best and hire gig workers when they need them. Organizations can now forego the talent management process and tap into the Open Talent Economy (Schwartz, 2013) to employ a scalable workforce.
- *Wider and easy access to talent:* The globalization of gig talent offers wider access to talented, hardworking gigs at competitive rates.
- Easy access to high skill

C) Benefits to the Economy

- *Cost reduction:* Due to the large numbers of people willing to gig, the result of a gig economy is cheaper, more efficient services (such as Uber or Airbnb) for those willing to use them.
- *Productivity enhancement:* Gig economy encourages hiring right talent at right jobs which is prerequisite for maximum productivity with significant flow-on effects for business and the economy.
- *Job Creation:* Gig economy not only creates more jobs but also new jobs which never had existence before. It offers job seekers to diversify their income, very different from the traditional single-employer model.
- *Disrupting existing work culture:* With the growth of gig economy, the employment model will be disrupted. This will change the way the work is accomplished and the way the employees and organizations interact, thus benefiting the economy as a whole.
- *Facilitating start-ups and MSMEs:* MSME's and startup often cannot afford to hire permanent staff. Gig economy offers them relief in this

case. Thus it encourages a boost in starting new ventures.

Black Hat: The Preventer

A) Challenges for gig workers:

- *Remunerations:* Apart from irregular income, gig workers receive delayed payments. Most of the time Clients refused to make payments on time or, even worse, refuse to pay at all, because they are not satisfied with the level/quality of work. Gig workers have to keep track of their own taxes.
- *Stability:* Gig workers also run the risk of inconsistent employment, meaning they must either chase down their own freelance work or hustle in the on-demand space.
- *Recognition:* It also takes a while for clients to trust them and hand over work, since they're not in direct liaison with the client on a daily basis.
- *Lack of opportunities for skill advancement:* gig workers have to invest themselves for their skill updation, as they are not affiliated to any one organization which can take care of this aspect.
- *Lack of health and retirement benefits:* Gig workers have to themselves make provision for their medical and retirement security.
- *No union:* There is no any legal provision for gig workers for form their own unions in order to protect their employment rights.

B) Challenges for employers (organizations):

- *Alignment with organization values and culture:* Gig workers can't be expected to align themselves to the culture of the organization where they are providing their services. This disrupts the balance at workplace, thus creating anxiety amongst the regular employees there.
- *Data sensitivity:* The temporary association of gig workers with the organization poses serious data security issues. They are added to email distribution list, but employers fail to remove them after the expiry of their contract. This poses severe data security risk.
- *Shifting Loyalties:* It is difficult for an organization to retain gig workers till the completion of the contract. A gig professional may switch over to more lucrative offer midway.
- *Performance and Assessment;* A mobile workforce requires a completely different approach in their performance assessments than conventional methodologies. This poses severe challenges to HR to redesign the methodologies.
- *No engagement amongst gig workers:* Employee engagements directly affect the productivity of an organization. But organizations often face challenges in keeping their gig employees engaged.
- *Incorporation:* Organizations often face difficulty in integrating gig

workers with their permanent staff. The acceptance of gigs by the permanent staff is often an issue.

- *Lack of clarity:* Organizations have bleak clarity on the legal aspects of gig employment, ways to leverage the benefits of gig economy and the future of gig economy.

C) Challenges to the economy:

- *Lack of social security and exploitation:* No financial security to the workers, resulting in lots of dissatisfaction and unhappiness.
- *Unsustainable employment model:* Although gig economy might be a temporary solution towards creating employment, it throws more market shocks to gig workers than the permanent ones. It does not foster a secure base for family building.
- *No legal protection:* The gig workers are categorized as independent workers having no protection against unfair dismissal, no right to redundancy payments, and no right to receive the minimum wage, paid holiday or sickness pay. Hence regulatory framework in gig economy fails to protect gigs. (Horney,2016) ((Lusher,2017)
- *Highly exploitative business model*: This new model of business severely compromises the worker's long-term interests. The short assignment model guarantees flow of funds but is considered less secure and highly exploitative in spite of the flexibility it offers (CIPD eport,2017)
- *Intellectual property issues:* Legal tangles and conflicts can arise out of Intellectual Property and confidentiality issues (Vaidyanathan and Bose, 2017).

<u>Green Hat: The proposer</u>

A) What can gig workers do:

- *Forming guilds for securing income:* Gig workers are denied of unemployment insurance, workers' compensation, and disability.
- Insurance etc. They can overcome these challenges by forming guilds so that they can determine a minimum wage for themselves and also make demands for equal wages for equal amount of work. In Silicon Valley, where gig workers are in demand, companies like MBO Partners are mushrooming to take care of benefits of gig workers who work for many employers.
- *Careful selection of jobs for stability:* The gig economy due to its very nature can't offer stability like regular jobs. Hence, gig professionals can always choose how many assignments they have to work on, which assignments to work on and how much time they have to spend on each assignment. This will facilitate a better work-life balance and more clarity on the return on the time invested in each project.
- *Seeking feedback from customers for branding:* Unlike earlier

generations, millennials no longer strive for a traditional 9 to 5 job. However, they do feel that the recognition at workplace in proportion to their job is inadequate. Gig professionals can bridge this gap by requesting their customers for feedback of their work and add it to their work profile.

- *Forming community pool to secure benefits:* The delivery of benefits is a key question. One option for bridging some of the gaps involves allowing independent workers to form pools in order to create their own marketplaces and benefits, a system that already works in the construction industry (unions) and in entertainment industry like Hollywood (guilds).
- *Personal branding for continuity:* Instead on running after job security, gig workers should focus on ensuring that they never run out of tasks in hand. This can be done by effective personal branding and developing a lasting personal relation with the employees, to become a natural choice when it comes to hiring talent for another task.
- *Collaborating with other gigs for up-skilling:* The employers of gig workers may not contribute to train them for updating their skills. Also, gig professionals are expected to be constantly updated with technology, and work as a specialist. In such cases, it is up to the gig professionals to up skill themselves. By keeping themselves regularly updated and collaborating among themselves, gig workers can stay abreast with latest trends.

B) What can employers do?

- *Alignment with organization values and culture:* Whether the temporary employees share the values of the organization they are working for is a major concern for the organizations. Before hiring, the employers can simply ensure if the gig workers values match with theirs. This will assure that they can easily blend with their employers working style.
- *Using block chain technology for protecting data:* Along with permanent employees, it is crucial to ensure gig workers are bound by the same agreements around intellectual property, which can be missed if the contingent workers are not going through a standardized process. Block chain technology, which uses encryption for information sharing, can rescue employers from data theft issues. Thus the data can be updated by gig workers without having any control over it and the authority withdrawn, once task is completed. The high level of encryption also ensures that vital data can't be shared with those not authorized for the task.
- *Employer branding to hire talented gig workers:* Focusing on branding rather than retention of gig workers can help employers to become employers of choice for highly competent gig workers. They can achieve this by concentrating

their efforts in the areas like towards on-boarding, payment negations, timely payments for the services, and respect for the professionals etc.

- *Revamping HR functions for incorporating gig workforce:* The Human Resources department of organizations needs to revamp their conventional functional processes to incorporate gig workers in their system. A few areas to be worked on are: a) Formulating strategies to attract best gig professionals. b) Engagement strategies c) integrating gig employees in the organization to blend with the workforce d) Customizing performance metrics to increase their accountability.

C) What can policy makers do?

- *Developing an alternative economic system to protect gig workers-* Protecting gig workers by amending labour policies and introducing new intermediaries can offer independent work a feasible option to the job seekers. This calls for obtaining the updated data on gig workers by conducting regular government surveys. Regulations can be in the schemes like a) Creation of a Universal Basic Income scheme b) Provision of skill-building opportunities c) Monitoring closely at the gigs based employment and taking steps to make them an attractive and secure option for people to follow.
- *Making a balanced regulation:* The three conditions which a benefits (if incorporated by policy makers), should satisfy to keep the regulation balanced are- a) It should be attached to individual workers and not their employers b) It should include all workers and all forms of employment. c) Linking employer benefit contributions to either time worked, jobs completed or income earned.
- *Mandatory registrations of gig workers:* Mandatory registrations of freelancers would be required in order to be able to protect their rights. This will ensure efforts by companies to develop good practices, as well as by government to provide an integrated future policy.

Conclusion:

The world of work has shifted over the last 20+ years, and is continuing to change rapidly. Gig economy, which is synonymous to Uber is "a labour market characterised by the prevalence of short-term contracts or freelance work, as opposed to permanent jobs". India needs billions of jobs, and these can only be produced by self-employment, for which the gig economy is excellent. With uberisation of white collar jobs, India is witnessing an increasing number of workers seeking contractual or freelancing opportunities, and services sector is embracing it at the fastest pace. Recruiters too are rethinking their remote work programmes. They need to reorient processes to gear up for the gig world. It offers numerous benefits to the economy, employers and the workers. But at the same time with poses various issues which question its sustainability in long term. Important being, the gig workers missing out on statutory safeguards with respect to unfair termination, minimum wages, paid leave, etc. This is highly complex and threatens the financial stability. India can certainly embrace gig economy if its government, like UK ensures its employment rules are updated to reflect "new ways of working", in order to successfully utilize the gig economy as a way of engaging the rising workforce of the economy, skill levels and technological access of the masses are in the right place. But certainly the winds of gig jobs are blowing in India fast.

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TALENT MANAGEMENT IN CONTEMPORARY ENVIRONMENT-EVIDENCE FROM BSE COMPANIES

Pradeep Kumar Singh

Abstract:

Talent management implies recognizing a person's inherent skills, traits, personality and offering him a matching job. Every person has a unique talent that suits a particular job profile and any other position will cause discomfort. Talent-management processes include workforce planning, talent gap analysis, recruiting, staffing, education and development, retention, talent reviews, succession planning, and evaluation. Identification, investment in, and management of the right talent can play a pivotal role in the sustainability of any organized entity.

The talent management approach addresses this very need in organizations to identify and make their investments on the right talents and realize their complete potential. Today, there is a growing demand for companies with distinctive capabilities, high performing organisations that have specialised workforces with technical, functional and industry expertise and experience. In such a scenario, it becomes important for companies to first, define the talent they need, second, discover and deploy it, and third, develop a culture that encourages specialisation. Keeping this background in a view, this research article highlights the concept talent management, rationale of talent management, strategies of Indian companies regarding talent management and how they are reporting and disclosing talent management in competitive era.

Key Words:

Talent Management, Human Resource, Skills, Employee's Retention Strategies

"Our core corporate assets walk out every evening. It is our duty to make sure that these assets return the next morning, mentally and physically enthusiastic and energetic."

– N. R. Narayana Murthy, (*Chairman and Chief Mentor Infosys)*

Introduction

Talent is at the centre of the 21st century business equation. This is true around the world as well as in India[1]. India's booming economy with an expected average growth rate of 7% to 9% for the last 10 years has fueled rapid urbanization and power-stepped the country into globalization. With nearly 50 cities at over one million in population each and a rapidly growing middle class, India has become one of the largest consumer markets worldwide. Paralleling this extraordinary growth is keen competition for talent. In the era of service oriented economy talent[2] is the key driver of the various industries and various economies especially in the last two decades. The organizational performance is determined by the performance of its employees. Talented employees are the agents of change. Talented people give birth to good and innovative ideas. Good ideas give birth to good products and processes. Innovative ideas also create new business opportunities and so on.

[1] Indian talent survey report 2012.

[2] In other words Human resources or intangible assets or intellectual capital/or knowledge capital. Intellectual capital includes/encompasses inventions, ideas, general know-how, design approaches, computer programs, processes and publications.

Talent Management: Concept

Talent management implies recognizing a person's inherent skills, traits, personality and offering him a matching job. Every person has a unique talent that suits a particular job profile and any other position will cause discomfort. Talents can be found throughout the whole organization, which leads to different types of talents, e.g. administrative talents, professional talents or innovative talents. Talent-management processes include workforce planning, talent gap analysis, recruiting, staffing, education and development, retention, talent reviews, succession planning, and evaluation[3]. The foundation of any knowledge- based organization lies in the quality of investment in talent. Talent management is also known as 'Intellectual capital, knowledge, information, intellectual property, experience that can be put to use to create wealth' (Stewart, 1998).

The talent management approach addresses this very need in organizations to identify and make their investments on the right talents and realize their complete potential. Today, there is a growing demand for companies with distinctive capabilities, high performing organisations that have specialised workforces with technical, functional and industry expertise and

[3]Ashutosh Muduli (2008). Effectiveness of Talent Management in India, International Conferences on Management Sciences and Arts, Gurukul Kangri University, Haridwar.

experience. In such a scenario, it becomes important for companies to first, define the talent they need, second, discover and deploy it, and third, develop a culture that encourages specialisation. Not only does this approach help companies exceed their performance targets, but it also ensures that their value proposition is differentiated to keep people satisfied, engaged and committed.

Rationale of the Talent Management

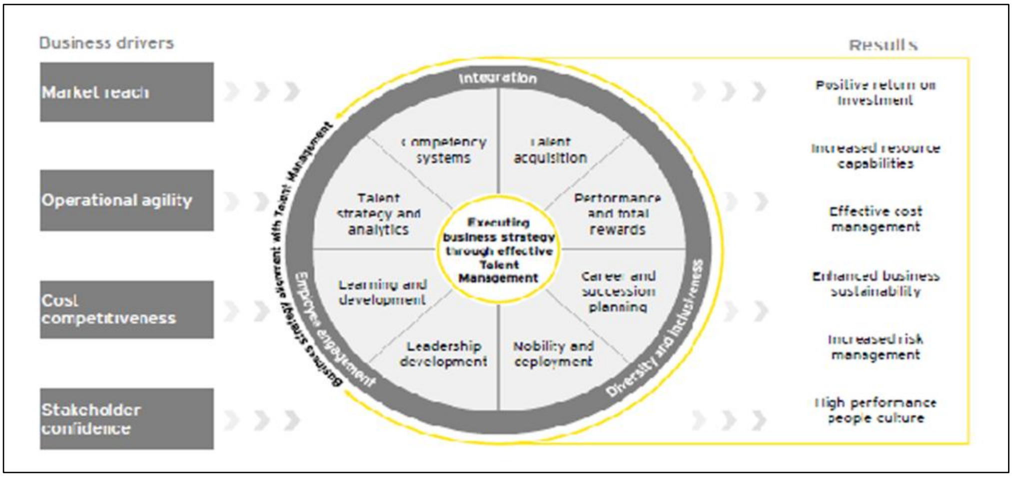
Talent is all about an individual's knowledge and skills, but it ultimately depends on the ability of the individual to leverage the resources of others as well–that is why social capital and structural capital are critical to talent development. The organizational performance is determined by the performance of its employees. Talented employees are the agents of change. Talented people give birth to good and innovative ideas. Good ideas give birth to good products and processes. Innovative ideas also create new business opportunities and so on. Talent development can have some very powerful return dynamics. The more rapidly a firm develops its talent, the more readily it can develop the next wave of talent. Talent is about the ability to deliver superior value, internally and externally. Talent is ultimately a function of human-capital, intellectual-capital, social-capital and structural-capital, working together to augment the value that can be delivered[4].

Identification, investment in, and management of the right talent can play a pivotal role in the sustainability of any organized entity. Talent management is essentially, both a science as well as an art-form held together in a harmonious blend. The science of Talent management is the conscious effort towards 'injecting' the right person in the right role and at the right time, thus achieving break-through performance In it's art form, the onus becomes that of the organization to create the right culture and climate to realize the complete value proposition out of the talent 'injected'. Exhibit I indicates the various aspects of talent related drivers. As talent management is effective results are positive return in investment, optimum utilization of resources, effective cost management and higher performance of the people and culture.

Management of talent is about management of Capability for innovations, creativity, know-how and experience, ability to work in a team, motivation, learning capability, educational and professional level, loyalty Capability of a company to benefit from resources connected with the company's external relations (with customer, suppliers, and other counteragents)., brands, suppliers, loyalty of the customers, distribution channels, business cooperation, alliances and partnerships, licensing agreements, franchising agreements etc. all these are related to talent. As a company are managing all these positively and effectively more revenue and market share for the company on the long run.

[4] The Management Accountant (2013), Return on talent, pp 257.

Exhibit: I The Talent Equation



Source: Talent – Building a new talent management model, pp 22

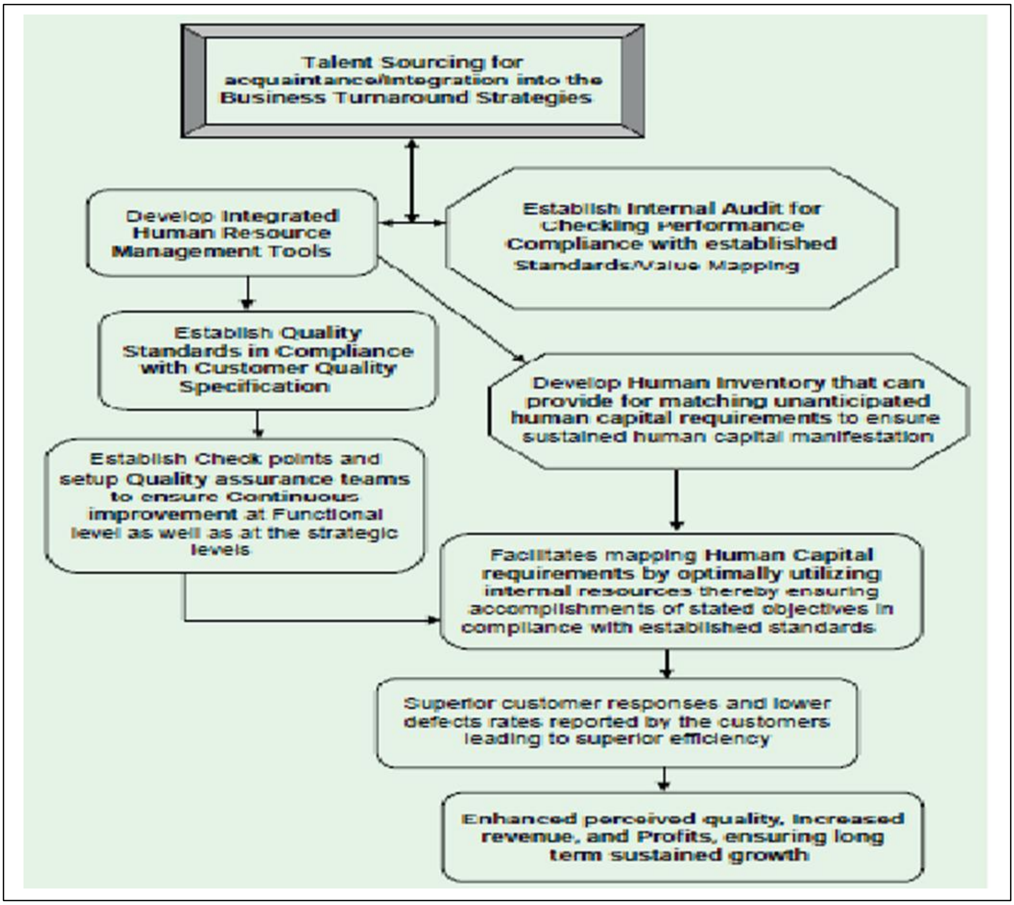
REASON BEHIND THE MANAGEMENT OF TALENT

Talent management is not a onetime phenomenon. It is regular and continuous process to take the advantageous of resources and skills. The following are the important facts which indicate needs of talent management in competitive environment:

1. Alignment of IC resources with strategic vision.
2. To support the implementation of a specific strategy via a general upgrading of the work with the companies' human resources (support and maintain a strategy concerning the composition of staff as regards seniority, professional qualifications and age. Through the description of the staff profile, measuring, discussion and adjustment become possible).
3. To support or maintain various parties' awareness of the company.
4. To help bridge the present and the past (stimulates the decentralised development of the need for constant development and attention towards change).
5. To influence stock prices, by making several competencies visible to current and potential customers.
6. To make the company appear to the employees as a name providing an identity for the employees and visualising the company in the public. Knowledge of employees and customers will stimulate the development of a set of policies to increase customer satisfaction and customer loyalty.
7. Assessing effectiveness of a firm's IC utilisation with the help of resources allocations between various business units.

8. Determine the most effective management incentive structures to retain and develop talent within industry.

Exhibit II: Accounting for Internal Capabilities for Realizing Potential Market Opportunities



Source: Manjunath, K. R. & Jalaja, K. R (2013). Talent Acquisition and Talent Management-A Strategic Tool for Business Turnaround, The Management Accountant, 48(3), 291.

In the competitive era measuring of talent management depends upon-Employee satisfaction, Retention rates, External reputation of organization as an employer, Employee productivity, Level of cross-functional collaboration, Diversity of management team, and Extent of skills gaps.

INTERNATIONAL EXPERIENCE

At international level talent management is popular in MNC's of USA and European countries. Many studies were taken by the different consulting groups related to talent management. Hewitt Best Employers in Asia 2005 study clearly shows that best employers record over 60 percent higher revenue growth, 30 percent higher growth in revenue per employee and half the recruitment costs of the rest. Talent Management basically requires proper diagnose of the current employee attitudes and organizational culture and then targeting the problem through a suitable strategy. With an estimated intangible assets component of 74% (as proportion of TEV), India is just behind US (75%) and Switzerland (74%), according to Global Intangible Tracker 2007 (GIT), the most extensive global study ever on intangibles assets by the London-based Brand Finance Institute. GIT 2007, exclusive global break with ET, covered over 5,000 companies in 32 countries. For India, GIT considered the top 50 companies (by market cap) on the Bombay Stock Exchange. Global intangibles to TEV average is around 65%.

REVIEW OF LITERATURE

According to the **SHRM**[5] report for Indian companies talent management and retention is more important then acquisition of tangible assets. They analyze the various emerging industry in India and how they are managing talent to face the global challenges. If we compare to the today's world economy, talent management strategies will continue to be the pinnacle of sustainability in India. Lessons learned and shared by Indian corporations regarding human capital and talent development will foster prosperous organizations and promote a healthy socio-economic environment in the years to come. **Korn/Ferry International report**[6] focused on the talent management by the Indian pharmaceutical in the last one decade. They analyzed the increases in the patent filled by the Indian companies due to innovation and increased research and development expenditure. They also suggested talent management strategies for the Indian pharmaceutical companies. They suggested assessing talent needs, identifying required skill sets and studying the compensation environment are important. A report by **Mercuri International**[7] on talent management on the basis of the study of the 77 companies and more than 6000 executives they focussed that the most important corporate resource over the next 20 years will be talent: smart, sophisticated business people who are technologically literate, globally astute and operationally agile. And even as the demand for talent goes up, the supply of it will be going down. Report concluded that the most important step of all is to recognize that talent within your organization otherwise it is going to waste.

[5] Corporate Indian Companies: Forging New Talent Pipelines and Creative Career Pathways, Nov 2008.

[6] Talent Management Is Key to India's Pharma Future by Korn/Ferry International, 2005.

[7] A report by Mercuri International on talent management.

Likert and Johnson[8] they argued the reporting and discloser of talent in financial statements they stated that absence of human resources as an asset in the balance sheet violates the accrual principles of disclosure, underrates the firm's net worth and current income and thereby does not reflect the true and fair view of the organization. The behavior scientist **Eric Flamholtz** emphasized the significance of human and development of method measuring human resources to monitor the effectiveness of management's utilization of human asset and to develop a theory explaining the nature and demerits of the value of people to the formal organization. **Ashutosh Muduli**[9] focused on talent management practice by Indian companies. He states that talent management is one of key factor to enhance the productivity. His study indicates that Recruiting and staffing, competency management, leadership development and assessment, performance management are found to correlate least with absenteeism, whilst compensation and succession planning appeared to be more strongly related with absenteeism. Leadership development and assessment, performance management, compensation and succession planning are strongly related with turnover, whilst recruiting and staffing, competency management are found to correlate least with turnover. Competency management, leadership development and assessment, performance management are strongly related with productivity, whilst compensation and succession planning and recruiting and staffing correlate least productivity. **Shyamal Banerjee**[10] had explained the conceptual framework of talent management and return on talent. He had focused on how to acquire a talent, how to develop them and how to take the best result from talent people. He had also focused on various elements of return on talent and related matrix. **Manjunath, K. R. & Jalaja, K. R**[11] focused on accruing and maintenance of talent in organization. They concluded that acquiring quality human resources is important task but it is important for them to realize optimal value for them which requires them to develop such strategies to appraise-develop-retain the intellectual resources for creating long term sustainable competitive positions in the market conditions. Acquiring the right talent and sustaining them for long term would always ensure them with all the advantages of realizing strategicturnaround to the operations. **Rana Geeta, et al**[12] stated that the functioning of an organization largely depends upon several remarkable components, with the talented employee occupying the central role for the accomplishment of organizational goals. They examined the talent retention practices in BHEL. They find that effective talent management practices help the Indian public sectors in general to retain their best talent. At BHEL, talent management practices are focused on

[8]Likert R. and Bowers D.C., "Organizational theory and Human Resource Accounting," American psychological association, august 1968

[9] Ashutosh Muduli (2008). Effectiveness of Talent Management in India, International Conferences on Management Sciences and Arts, Gurukul Kangri University, Haridwar.

[10]Shyamal Banerjee (2013). Return on talent. The Management Accountant, 48(3), 262-269.

[11] Manjunath, K. R. & Jalaja, K. R (2013). Talent Acquisition and Talent Management–A Strategic Tool for Business Turnaround, The Management Accountant, 48(3), p 290-293.

[12] Rana Geeta, et al (2013). Talent management: a paradigm shift in Indian public sector. Strategic HR Review, 12 (4), 197–202.

competencies, knowledge, learning and increased broad group engineering and technology transference. They suggested that organizations should invest in the process of talent management and development of its employees for building up the reservoir of competencies of the internal workforce so as to make them future-ready.

With all these studies it is clear that in knowledge economy and service oriented environment talent management is one of the important task before mangers in 21st century.

TALENT MANAGEMENT AND HUMAN RESOURCE ACCOUNTING

In the era of Globalization and knowledge-based economy, it has become crucial that human resource is one of the most essential ingredients of the success. The growth and development of software companies' worldwide depends on its people and the intellectual capital it possesses. Retaining and maintaining "knowledge workers" has been a primary aim for many employers. These individuals are assets who get appreciation in value through skills, knowledge and experience they acquire during their services in the organization. When they leave, the business loses an essential element of intellectual capital. Often the loss is compound, when they join a competitor. Thus, it has become imperative to value this key asset of knowledge industry and report the same to public to create better image of the company. The trend of Human Asset Valuation (Human capital) caught on with the emergence of knowledge-based industries, where human capital is widely considered as the critical component that forms the basis for other forms of capital. In an industry, where attrition rates are still very high, HR valuation helps the companies know the value they would forego when they are about to lose a person. Infosys's annual report, for instance, includes intangibles like brand and human resource valuation (based on the L&S model), which account for over 80 per cent of the company assets. Software companies say HR valuation helps companies make investor friendly disclosures to make them fully aware of the company's human assets. The investors can also assess the return on human capital, which is the essence of the return they are getting from people, who are managing their wealth/ investment. For talent management Human resource accounting is one of the tools which identify abilities and skills of employees and correspondingly value for the corporate. This information is equally useful for various stakeholders to determine the strength of a company.

TALENT MANAGEMENT STRATEGIES

Talent management strategy is different in different corporate according to their mission and objectives. Most of the Indian firm following the talent management strategies as:

- **Attracting Talent**: brand image of the corporate, pay package, working environment.
- **Developing Talent**: executive coaching, leadership development programs, addition training with latest techniques.
- **Career Development / Career Management**: vocational training, team building and succession planning.

- **Retaining Talent:** promotion, additional compensation, opportunity to work aboard, new training programs, and flexible work arrangement.
- **Transitioning Talent**: creating goodwill, Career Transition Programs.

As per the report of the SARM, here summary of some leading Indian corporates are tabulated, how they are finding a talent, developing a talent and retaining a talent and related strategies in the global era.

Exhibit III: Talent management in Indian corporations

S.N.	Finding talent	Developing talent	Retaining Talent
1.	Scarcity of talent with required skill/ competencies	Focus on different group- young people, managers etc.	Emphasis on benefit of sector culture, growth, rewards
2.	Competition from other sectors	Emphasizing a learning culture	Focus on employee's engagement.
3.	Competition from global firms	Customizing training	Home grown leadership through leadership development programmes.
4.	Mindset to change jobs frequently	Partnering with universities and professional institutes.	Corporate social responsibilities activities–volunteer opportunities
5.	Unrealistic employees expectations	Recruiting varying geographic and demographic areas- in India and world wide	Domestic and global special training assignments.

Source: Corporate Indian forging new talent pipeline and creative path ways (SHRM India, 2008)

THE COMPONENTS OF TALENT MANAGEMENT

- Strategic Employee Planning.
- Talent Acquisition and Retention.
- Performance Management.
- Learning and Motivating.
- Compensation.
- Career Development.
- Succession Planning.

TALENT MANAGEMENT – SPECIFIC STRATEGIES BY BSE COMPANIES

Some specific strategies of the sample companies regarding talent management are list as a summary. Exhibit IV indicates that in the era of global competition as per the requirement of different skill, expertise different sample companies are having different strategies. But one thing is common that ever corporate's wants to retain and develop the leadership qualities specially in the middle level management from the existing talent of human resource. At the same time they also want to catch young talent with the various innovate talent acquisition strategies such as catch talent at school level etc.

Exhibit IV: Indian corporate's and talent management programmes/activities

Corporates	Talent management scheme/ activities
Infosys	**Leadership programme** – to develop world class leaders. **Campus contact programme, Academia industry programme** to enhance the pool of talent. **SPARK program**. To catch young talent at school level rural level students.
TCS	"One TCS Culture", Academic interface programme (AIP), Fit4Life, health awareness sessions, periodic medical, check-ups, gymnasiums in offices and 24 x 7 'Employee Assistance Programme'
WIPRO	Wipro Academy of Software, Excellence (WASE) program
HUL	'Leaders build leaders' philosophy, **A learning culture of 70:20:10 ,** 'Sparkle', a centrally hosted intranet based tool, supports skill mapping, skill assessment, performance assessment and gap analysis. Stepping into One (SIO), a capability intervention, supports building the talent pipeline for all shop floor employees into potential administrative or supervisory roles.
ITC	Principle of distributed leadership, 'future-ready' talent bank, ITC's talent brand "Building winning businesses. Building business leaders. Creating value for India.
Dr Reddy	Talent Management Board (TMB), talent philosophy and leadership development, talent management framework based on the Performance-Potential Matrix to review breadth and depth of talent, including downstream interventions, 9-Box Performance-Potential framework to assess talent and identify gaps.
Ranbaxy	'VECTOR', was launched globally to facilitate internal movements and lateral career shifts. Key areas Learning and Development, Performance Management, Recognition and Career Development.
ONGC	Fun Team Games (FTGs), MDT (Multi-disciplinary Team), "Performance Support", 'Return on Investment on Training', Leadership Development Program'
BHEL	People Development Workshops, Knowledge Transfer Workshops, 'BHEL: Need of the hour' for Artisans, 'Life Education Workshop' for Supervisors-

	"Strategic Management Initiative for Leadership Effectiveness (SMILE). Towards Global Strategic Leadership" Mentoring Workshop
L & T	Leadership Development Academy, Project Management Institutes, systematic career progression of staff for succession planning. Constructions Skills Training Institutes (CSTI), for formal vocational training in various construction trades to youth from the weaker sections of society.
RIL	Project - STAR. Reliance Technology Group (RTG), The FC&A Academy
Tata Steel	Talent Appreciation Process (TAP), Global Leadership Development Programme (GLDP), 'Counselling Centres' for employees, 'Samarthya'
ICICI	Employee Stock Option Scheme (ESOS), "Saath Aapka", 'Khayaal Aapka', "skill through drill". ICICI Business Leadership Programmes, ICICI Bank Sales Academy.
HDFC	Performance Management System (PMS) to assess performance, Employee Stock Option Plan ('ESOP's)
SBI	Strategic Training Unit (STU), brand employer etc.

Source: Collected and complied from annual reports of sample companies

Talent management software

The following softweare are used by the Indian corporate's for talent management activities:

- SuccessFactors BizX. ...
- Oracle **Talent** Cloud (Taleo) ...
- Kenexa. ...
- Cornerstone OnDemand Recruiting Cloud. ...
- Halogen TalentSpace. ...
- SilkRoad OpenHire. ...
- Peoplefluent. ...
- Lumesse TalentLink.

FINDINGS: After the content analysis and various strategies of the sample companies regarding talent management, some important findings are as follows:

- Relationships management is one of the important criterions for talent management. Companies in which the managers do a good job of developing a one-to-one connection with both prospective and current employees stand a much better chance of affecting and retaining talented employees.
- The marketing of an organization's infrastructure (e.g., office facilities, on-site recreational facilities desktop configurations, intra-organizational social media communities, etc) is being used more and more by larger companies to attract talented employees.
- Additional compensation and Promotion/Job advancement are the major motivators for employees to stay in an organisation.
- Flexible work arrangements are identified as a consistent motivator among the employees and important part of retention strategy and delay retirement.

- Lack of compensation increases and lack of career options are the top reasons for employee's attrition in India. Some other important reasons were as; New opportunities in market, Lack of challenge in the job, Dissatisfaction with supervisor or manager, Lack of adequate bonus or other financial incentives, Lack of flexible work arrangements
- To retain employees effective retention strategies adopted by Indian companies are Promotion/Job advancement, Additional compensation, new training programs, Flexible work arrangements, Opportunity to work abroad.
- Indian companies are not disclosing information about succession planning (especially for top level management).
- Building teams, raising employee productivity and increasing employee motivation have emerged as the top three talent priorities for Indian corporates. Retention of high-potential talent continues to remain crucial challenges for many Indian corporates.
- The top five activities in which Indian corporates are spending most of time includes building teams, optimising productivity and channelling employee's energy, increasing the motivation levels of employees, retention of talent and building an internal channel of talent among the major Indian corporates.

Challenges among the Indian corporates:

Indian corporates are facing many challenges regarding talent acquisition and retention especially in the last two decades. Managing talent means managing different skills, abilities and talent as per the requirement of the corporate. Talent is basically an intangible in nature with lot of complexities, and difficult to manage the human behavior. Attracting and retaining enough employees at all levels to meet the needs of organic and inorganic growth is difficult task. Some important challenges are as:

- The first challenge is to manage changes of the employment relation. Earlier day's relation is long life employment but now days (young) employees are more individualistic look on employment. They are demanding challenging work, as well as substantive rewards and opportunities to grow and learn otherwise they are leaving companies quickly.
- Another challenge is to management of business uncertainties and talented employees. Weather to select global level employees or local supply of employees. A proper tradeoff between these two situations is big challenge among the Indian corporates.
- Another challenge is the management of diversity of the workforce, along with gender and age management within the company.
- Developing a leadership with talent pool is big challenge. Role of

leadership is critical for the success of a corporate.
- Transferring key knowledge and relationships with the exiting workforce to the next generation is leading challenge. The large scale retirement of significant workforce is a big challenge for all the Indian companies.
- Redesigning talent management practices to attract and retain middle level talent on which corporates heavily invested is big challenge. Because very frequently they are changing employment.

Suggestions: how to improve the situation

- It is responsibility of employers to improve their understanding of ways of the evolving mindsets of employees for effective talent management.
- It is suggested that offer priorities to understand the key talent issues in a different area of working and accept the suggestion of the employees.
- Third understands how employees perceived the effectiveness and activities of their HR and talent teams.
- Fourth is considering what matters most and the perspectives of employees who see their HR teams as world-class and why this appears to matter and translate into higher satisfaction, loyalty, and retention.
- Talent management (how an organization manages and develops its people consistent with its business strategies) must be an integral part of the business strategy to be effective.

CONCLUSION

In twenty first century success of an organization will depends upon the way how corporates are managing talent. Attracting the best talent, developing the talent and retaining the talent, are the key focus area of talent management practices. The talent management approach indicates needs of an organization to identify and make their investments on the right talents and realize their complete potential. Today, there is a growing demand for companies with distinctive capabilities, high performing organisations that have specialised workforces with technical, functional and industry expertise and experience. In such a scenario, it becomes important for companies to, define the talent they need, discover and deploy it, and, develop a culture that encourages specialisation. As far as Indian corporates are concern they are also focusing on talent management with different programmes and practice as per the requirement of industry and environment. Most of the corporates spends time for building teams, optimising productivity and channelling employee's energy, increasing the motivation levels of employees, retention of talent and building an internal channel of talent etc.

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TAX PLANNING & HUF

Pradip Kumar Das

Abstract:

An individual can save his tax by taking full advantage of the various provisions contained in the Income-tax Act specially relating to deductions and exemptions. Many tax payers resort to illegal activities to save income-tax; but, such illegal activities are not a part of tax planning process, rather, a part of tax evasion which is always depreciatory. However, one can go ahead with legal ways of saving income-tax and find out the pointers which are of advantage looking to the facts and circumstances. One such very important way of saving income-tax is to think of forming a separate tax entity in the name of HUF or Hindu Undivided Family. Creation of HUF helps the tax payers to save their taxes in a legal manner.

Key Words:

Hindu Undivided Family, Individual, Income-tax Act, Tax Liability, Tax Planning

Introduction

Creation of HUF is one of the several opportunities available to the taxpayers to reduce their tax liabilities in an organized and legitimate manner. Although it is not a juristic person, it has a distinct unit of assessment under the Income- tax (IT) Act. HUF has drawn the attention of the Revenue Department as well as of tax planners. Very often, this unit is used as an instrument of tax avoidance by dexterous assessees in India. Various amendments made from time to time in the Act have acted as a damper on this phenomenon and arrested concentration of wealth and income in the hands of HUF. This paper makes an attempt to look at how through tax planning an assessee saves tax legally by forming an HUF and taking advantages of the different provisions of the Income-tax law in advance. Tax planning, thus, allows the other elements of financial plan to interact more effectively by minimizing tax liability.

Objectives

The study is carried out with the following prime objectives:-

1. To study how creation of HUF helps the tax payers to save their taxes in a legal manner.
2. To find out the devices which are of advantage looking to the facts and circumstances.

Research Methodology

The author has collected information on visiting web pages and the information as mentioned on the websites are analyzed to serve as the input data for the study. The study being conceptual and descriptive expresses the author's own opinion and opinion of some reputed authors. The work is designed for a cross-section of those for making the issue easily understandable. The study covers several phases. First two phases contain the concepts of HUF and tax planning; third presents the assessment of HUF; fourth discusses the impact of tax planning on HUF and the last five phases relate to suggestions, concluding comment, research scope, conclusion and acknowledgement respectively.

HUF - Concept

HUF, a person within the meaning of section 2(31) of the IT Act, 1961 has not been defined by the Act as it has well defined connotation under Hindu Law [(Surjitlal Chhabra v. CIT 101 ITR 776(SC) and CIT v. Gomedalli Laxmi Narayan 3 ITR 367 (Bom.)]. An HUF, in addition to an individual has a separate tax entity under the provisions of the Act; it means that the same person can be assessed in two different capacities viz. as individual and as Karta of the HUF. The essentials of HUF are: (i) one should be Hindu, Jains, Sikhs and Buddhists but not Muslims or Christians; (ii) there should be group of persons and (iii) they should live jointly and have commonness amongst them. All these three essentials are cumulative. An HUF does not arise from contract but arises from status. Sikhs and Jain families are assessed as HUF under the Act as per judicial decisions [1] though not governed by Hindu Law. There are two schools of Hindu law-Dayabhaga and Mitakshara. Under Dayabhaga School of Hindu law prevailing in West Bengal and Assam, a son acquires interest in the ancestral property after the expiry of his father not by birth and income arising wherefrom is taxable as income of HUF. Under Mitakshara School of Hindu Law prevailing in rest of India and with the introduction of Hindu Succession (Amendment) Act, 2005 w.e.f. 06.09.2015, both son and daughter acquire by birth equal right in the ancestral property along with their father. The coparcener under this law fluctuates with every birth or death. The family consisting of the members will, thus, be assessed as HUF and not in the name of the father as an individual.

TAX Planning - Concept

Tax planning is an art of minimizing the impact of tax and maximizing the post-tax cash flows by following the legislative intentions. "Everyone is entitled to so arrange his affairs as to avoid taxation or to reduce his tax liability but the arrangement must be real and genuine and not a sham or make believe" [2]. Even the Supreme Court has held in the famous case [3] that tax planning may be legitimate provided it is within the legal framework. Colorable devices cannot be part of tax planning. Thus, tax planning reduces the outflow of cash resources by way of taxes to the Government so that the same may be effectively utilized by the assessee for his benefit. It ensures not only accrual of tax benefits within the four corners of law but also discharges tax obligations properly to avoid penal provisions. Tax avoidance, on the other hand, attempts to reduce incidence of tax by taking advantage of the loopholes of laws which the legislature does not intend to permit. Such an act, though not illegal, is a crime against society. Its evil consequences [4] are unethical resulting in transferring the burden of tax liability of the artful dodgers on the shoulders of the honest citizens [5]. The assessees' planning of affairs not only helps them in a dignified manner but also succeeds in securing the objectives, tasks and goals set before them by the nation [6]. As pointed out by Gerald Carson, tax avoidance is practiced up and down the economic scale signified by mis-representation, trickery, concealment and a patently lame and untenable excuse [7].The Gujarat High Court [8] in CIT, Gujarat VS. Kartikay V. Sarabhi has dwelt upon pillars popularly known as Golden Rules both for the assessees and the Revenue Department in effectuating an efficient illuminated tax system. Hence, it is not permissible for a tax payer to adopt tax avoidance as a device of tax planning. Tax evasion as a device evades or reduces tax liability by fraudulent means like suppressions or omissions of receipts, inflammation of expenses and claiming bogus deductions/losses in fictitious transactions. Thus, tax avoidance and tax evasion are not tax planning as both are against the spirit of law and sometimes amount to breach of law whereas tax planning is devised within the legal framework by following the legislative intentions and opinions. Various decisions pronounced by courts clearly state that tax planning within the framework of law is perfectly legitimate. However, devices or resort to dubious methods and subterfuge are not indicated and hence, unlawful.

Assessment of HUF

Assessment of HUF requires essentially coparcenership and ancestral property. Once a unit is assessed as HUF, it shall continue to be assessed as a separate entity unless partition is claimed by the members u/s171. This helps separate tax obligations of an individual from that of his family. Income - tax slab for HUF is same as that of an individual with identical exemption limit and tax benefits.

Impact of Tax Planning on HUF

The principle of taxation of HUF is based on the concept of joint family in India where the assets as well as the incomes arising wherefrom are owned jointly by the family. Such incomes cannot be assessed for taxation for specific individual but, for the whole family. Members within the HUF having individual incomes are taxed separately. Since the account is equivalent to an individual's account, there are several tax benefits. A few of them are:

- ✓ An HUF goes to bring tons of tax saving for the individual especially because of the innumerable tax benefits scattering in the income-tax law to be separately available to the HUF.
- ✓ A father for availing tax benefits u/s 64(2) and 56(2) can gift a valuable property or money to his son belonging to a small HUF account on declaration that the gift is for the son's HUF and not to him as an individual.
- ✓ A prudent member of the family apart from enjoying a deduction of Rs. 1, 50,000 individually in terms of section 80C of the Act can claim higher tax deduction because the new tax entity in the form of HUF is eligible to claim separate tax deduction u/s 80C.
- ✓ Owing to separate tax entity, a tax payer can simply start a new file directly in the name of HUF with receipt of some gifts from parents or in laws or from friends and relatives. Any gift other than money received by the HUF from its members is not subject to income-tax law u/s 56 of the Act. Further as per the provisions concerning section 64, income arising from making gift to the HUF by a member will be clubbed to income of the member's own HUF. However the member, if required, can offer loan to the HUF.
- ✓ An assessee with separate Permanent Account Number (PAN) can open a bank account in the name of the HUF with small gift received and thereby, carry on business and also become a partner of the partnership firm to avail exemption u/s 10(2A). An HUF can also invest in the stock market; buy mutual funds etc.
- ✓ An HUF can claim separate tax deduction up to the maximum of Rs. 25,000 for payment of Health Insurance Premium u/s 80D of the Act. However, if the HUF takes out Mediclaim Policy for any member of the family belonging to senior citizen, the deduction will be Rs. 30,000 (including Rs. 5,000 for Preventive Health Check UP). From the assessment year 2019-2020, this deduction is Rs.55, 000.
- ✓ An HUF can further receive a separate tax deduction of Rs. 75,000/ Rs. 1, 25,000 on account of maintenance including medical treatment of a dependant member which happens to be a person with disability/severe disability u/s 80DD of the Act.
- ✓ If an HUF makes payment on medical treatment of specific disease or ailments as mentioned in

the Act for the benefit of its members, then a deduction up to Rs. 40,000 is available to the HUF u/s 80DDB.However, if such expenditure is made for member who happens to be a senior citizen or very senior citizen, then the deductible amount will be Rs. 60,000 or Rs.80, 000. An HUF can also donate to recognized charity trusts and institutions to claim deduction u/s 80G of the IT Act.

- ✓ An HUF u/s 24 can claim deduction for interest on self- occupied house property of Rs.2,00,000 in a year. Incomes from dividend on shares or Mutual Funds, long-term capital gains on listed securities get also exemption from income-tax. Income from short-term capital gain is also eligible to a lower tax rate of 15 % only.
- ✓ An individual can avail of the maximum deduction of Rs.2, 00,000 as interest on housing loan for purchasing a residential house property in the name of the HUF with borrowed capital. It is even possible that for purchasing one single house property jointly in the name of the HUF and any member of the HUF, the HUF is entitled to deduction on account of interest up to Rs. 2, 00,000. Similarly, the members of the HUF can also separately enjoy deduction of the identical amount on account of interest on loan.
- ✓ The salaried employees receiving house rent allowance from their employers for payment of rent to the HUF can claim tax deduction from the salary income by submitting the rent receipt to the employer together with copy of PAN Card of the HUF.
- ✓ An HUF letting out its property to any person will enjoy deduction in respect of entire interest on loan paid by it from the rental income of the property.
- ✓ Re-investment of income arising from investments in tax - free schemes like life insurance policies, tax- free bonds, etc. to earn higher income, even if taxable, will be taxed only in the hands of the HUF. An HUF having separate tax entity, contribution to such schemes as available in the laws shall obviously reduce the tax burden of the individual. Income out of income is outside the provision of clubbing of the IT Act.
- ✓ Being distinction of individual incomes from HUF income, legal transfer of their incomes amongst the relatives and filing returns separately for enjoying the basic personal exemption limit is one of the common methods adopted by taxpayers to lower the incidence of tax.
- ✓ Income transferred by the parents or grandparents or any other person is exempted independently in the hands of the minor child up to Rs.1,500 per child up to a maximum of two minor children u/s 10(32) of the IT Act.
- ✓ Income of the minor child is not includible with the parents as per the proviso to section 64(1A) where any income accrues to the minor child by dint of his manual labor involving skill, talent or specialized knowledge and experience.

- ✓ An individual offering gift to major children can enjoy the benefit of lower income - tax incidence in the HUF. Granting interest-free loan to major children from own funds to reduce taxability is lawful.
- ✓ A simple technique of tax saving for the successors is to plan the division of the estate amongst different family units of the successors. This single view, if implemented into reality, would attract tax saving for the future successors to the assessee's estate.
- ✓ Different taxable units can be formed of HUF using the loopholes of will or gift.

The following devices can also reduce tax liability of an HUF:

(I) Partition of HUF: Partial partition of HUF with separate independent taxability is an effective device of tax planning to reduce tax liability. An HUF having members of high incomes and owning only one business establishment does not admit physical division; tax incidence, in such a case, can be better reduced by payment of remuneration to the members. Although sec. 171(9) has not recognized partial partition of an HUF affected after 31.12.78, the Madras H.C. has declared ultra-vires of the provisions of section [M.V.Valliappan v. ITO, 170 ITR 238]. The Supreme Court has stayed the operation of the decision [171 ITR (St.) 52]. The Gujarat H.C. has, however, held the ITAT justified in following the decision of Madras H.C. [CIT v. M. M. Panchal HUF, 210 ITR 580 (Guj.)].

Thus, a large HUF already assessed or not yet assessed as such can further be partitioned and thereafter assessed to tax. Ordinarily, dual capacity helps reduce tax; but where the HUF having large income but not reaching the maximum slab rate with many coparceners, the liability of the HUF can be effectively reduced by full partition dividing the assets amongst the members. The sale of asset after partition can enable those members having no house to avail of the reinvestment benefit of section 54F and even otherwise u/s 54EA and 54 EB [9].

(II) Creation of HUFs by will in favor of or gift to HUF: There can be a gift or will for the benefit of HUF by any member of the family or an outsider. It may be pointed out here that an HUF cannot be created by act of parties but a corpus can be created for an already existing HUF through the medium of gift or will.

(III) Family Settlement or Arrangement: By family arrangement tax incidence is considerably reduced or it may even be nil. As it does not involve transfer, there would be no gift and capital gains tax liability or clubbing u/s. 64.

(IV) Payment of remuneration to the Karta and / or other members of the family: Payment of reasonable remuneration for carrying on the family business or looking after the interest of the family in a partnership business [Jugal Kishore Baldeo Sahai v. CIT 63 ITR 238 (SC)] under an agreement between the Karta and other members of the family is an important tool of tax planning and is deductible from the income of the HUF and thereby tax liability.

(V) Loan to the members from the HUF: Expansion of business, capital or investment of the HUF can be done in the individual names by providing interest - free loans to them from the HUF. Repayment of loan taken for purchasing property by members of the HUF and the income wherefrom would be assessable individually.

(VI) Gift of HUF movable assets to its female members: The Karta of an HUF cannot gift or alienate HUF property but for legal necessity, pious purposes or in favor of its female members. Gift of immovable property subject to sec.56 can be made by Karta to his wife, daughter, daughter-in-law or even to son out of natural love and affection.

Gift for marriage or maintenance of daughter is not liable to gift tax. Further clubbing provisions of sec. 64 will be inapplicable if the gift is valid in accordance with the rules of Hindu Law. Besides, valid gift made to minor daughter of the Karta will not cover the provisions of sec. 60 [CIT v. G. N. Rao, 173 ITR 593 (AP)] whereby, section 60 relates to transfer of income without transfer of assets.

Abolition of gift - tax w.e.f. 01.10.98 has opened the door for tax evasion by routing unaccounted income as gifts; sections 56(v) and 2(24)(xiii) have been inserted to treat gifts from non-relatives in excess of Rs 50,000 as income. It can be inferred that this measure is a substitute for gift-tax. Gift made by the HUF to its member falling within the meaning of relative will enjoy exemption [10]. However in the following cases, gift of immovable property are not chargeable to tax:

•Property received by HUF from its members. •Property received on the occasion of the marriage of the individual. •Property received under will/ by way of inheritance. •Property received in contemplation of death of the donor. •Property received from local authority as defined u/s 10(20) of the IT Act. •Property received from any fund, foundation, university, other educational institution, hospital or other medical institution, any trust or institution referred to u/s 10(23C) and registered u/s 12AA.

(VII) Other Methods or Devices: (i) Vesting of individual or self-acquired property in family hotchpotch. (ii) Family reunion after partition. (iii) Inheritance by succession – bequests by will, now recognized by sec. 30 of Hindu Succession Act. iv) Profits earned from HUF business though taxable but exemptions offers more leverage on tax saving.

Suggestions

To complement all the devices implicitly, the following suggestions are offered: i) with separate tax unit, a scheme of adequate family allowances should be incorporated with it; (ii) in lieu of according any distinct treatment, some of the HUF aspects would have to be ignored for tax purposes; others can be suited into the scheme of family taxation;(iii) intra-family gifts should be ignored; those made to individuals outside the family household should be treated as the recipients' income; iv) all the personal taxation problems like the problem of avoidance and evasion call for immediate attention; v) avoidance can be dealt with by defining the tax base in a more concrete manner and also meticulously outlining new legislation so as to patch up the existing loopholes in the law; vi) evasion too needs to be prevented with the use of variety of techniques to promote accurate disclosure and through severe punishment of offenders; vii) with the opening of the economy and more liberal tax atmosphere, the urge and need to avoid and evade tax will definitely decline. viii) the personal income - tax also awaits major reforms; ix) with a distinct and skilful handling of the HUF as well as other discrepancies, India should definitely be able to strike a positive balance between equity and efficiency; x) the results of the trade-off shall largely be in favor of the nation's development and overall stability; xi) with the reduction of corporate taxation in certain spheres, the future of the personal income-tax appears to be encouraging and shall obviously help India step into the twenty-first century with a healthy infrastructure.

Research Scope

The legislature must not look at the hallowed institutions like the HUF always with a suspicious eye but come to accept that this is a time honored tradition and institution which cannot be abandoned altogether. The various features are very important part of it as in any other society or custom. It is promising that at least the process has commenced by removing the discriminatory rates of tax for specified HUF's and individuals. HUF as an institution is an inherent part of Hindu society and should be allowed to develop or change on its own under modern environmental and economic pressures and need not be burdened with restrictive and discriminatory fiscal laws. Therefore, there is still a sufficient scope for tax planning and research scope in HUF and a lot depends on how the various features and aspects are applied. To succeed and suit the facts of each case, the arrangements must fall within the ambit of both the Hindu Law and the taxing statutes as interpreted by the judiciary. It is hoped that this endeavor will prolong for days to come.

Concluding Comment

Among the major tax powers vested by the Indian constitution, the personal income - tax is one of the most important sources of revenue to the Government. But the system has its flaws. The existence of the HUF and the superior treatment offered to it complicates the assessment and collection of taxes and the resulting hindrances in the equitable and efficient assessment of income. Dexterous use enables the members of HUF to avoid their tax liabilities either partially or completely. However, it is not fully justified to shirk the entire responsibility on the HUF. HUF has to be created keeping in mind the legal and financial requirements. Tax planning is like knowing the medicine to be taken by a patient. Experts are of the view that running an HUF can be an artifice business necessitating expertise. Nonetheless, HUF is an important tool to revisit taxation of income and reap benefits. Indian income - tax laws do not discriminate between different sources of income as would be the case under “scheduler" type of income - tax. Thus, the Indian taxation system may be called ·'global’ in principle and, for the most part, in practice also.

Conclusion

Considerable tax saving is possible by adopting a holistic, family-wide tax planning. Legally tax saved today is future investment. Despite various enactments, amendments and the judicial pronouncements in the Act to check tax avoidance, the separate legal entity of HUF can still be effectively utilized as an independent entity for taxation purposes and an indispensable tool of tax planning to reduce the overall taxes of the individual or family. It is high time that every member of the family should have separate and independent income-tax file and can enjoy tax- free income individually. Thus, an assessee through tax planning may avail of various tax incentives by complying with the legislative provisions and the assessee belonging to the category of HUF can take advantage of all such situations. This being totally different from tax avoidance and tax evasion, the devices and methods adopted for reducing the tax liability will not be illegal under any statue of tax law in India; rather, it will be in the interest of the assessee and the Revenue Department for efficient and smooth functioning of the administration. The act says that an HUF "hitherto assessed" continues to be assessed as such, unless there is a formal order admitting partition from the AO giving a finding that there has been a total partition by metres and bounds. Thus, HUF is contemplated among the most efficacious tax planning as it helps the tax of not only an individual but of whole of the family.

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Guidelines to submit full Paper

- Soft Copy of the full paper should be submitted in double space, 12 font size, Times New Roman, keeping a margin of 1 inch in four sides, MS Word (.doc) format.
- Each paper should be preferably within 5000 words including all.
- An abstract of not more than 150 words should be attached.
- The cover page should contain the title of the paper, author's name, designation, official address, contact phone numbers, e-mail address.

Papers are invited on the following sub-topics, but not limited to:

1. Capital Markets in India
2. Trade Agreements and India's Foreign Trade
3. Energy Sector
4. Impact of Digital Innovation on the Strategies of Telecom Sector
5. FDI and FII: National Growth Perspective
6. Navigating Transformation in Banking: Technology Disruptions Shaping the Industry
7. Reinventing Finance Sector for Excellence via Blockchain Technology
8. Portfolio Risk Management
9. Public Sector Accounting and Financial Reporting
10. Sustainability and CSR through Green Supply Chain Management
11. Corporate Governance and its Impact on Audit Practice
12. Technological transformations and diversities in Start ups
13. Cryptocurrency and its impact on future of Business
14. Deploying Artificial Intelligence for Small Business
15. GST Reforms

Papers must be received within **31st January, 2019** in the following email id:
research.bulletin@icmai.in

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