AMBER

Acharya Management Business and Entrepreneurship Review

Volume 2 Issue 2 April 2011 – September 2011 ISSN: 0976-3341

acharya

NURTURING THE FUTURE

ACHARYA BANGALORE B-SCHOOL (ABBS)

Published by:
Acharya Bangalore B-School
No.3, Lingadheeranahalli, Off Magadi Road,
Bangalore - 560 091.

Printed by:
Aakruthi Design & Print
Mr. Anand Kumar. N
Mob: 9886806994, Mail: anandkmrnaidu@gmail.com

Editorial

'History repeats'!

'History will not forgive us, if we do not learn from our past mistakes'!

'Those who can see deep into the history would be capable to see the farthest of the future'!

We strongly believe in these phrases. Not much work has been done in India in understanding and deciphering the past as for as Business and Industry are concerned. It is need of the hour. We need more business historians and we need to study the history of business and industry for the benefit of posterity. We need to recognize those who create history. India has to recognize wealth creators. India celebrates wealth distributors more than wealth creators! To illustrate, JRD Tata is the only Bharath Rathna award winner among comity of icons who created wealth for the nation in business and industry!

This issue of AMBER deals with history of Business and Industry in selected few sectors and regions. Article 'Trade and Merchant Guilds in Medieval South India: An Incisive Insight' by Dhanalakshmi reviews the growth of trade and merchant guilds in Tamil Nadu, Karnataka and Andhra Pradesh. The article by Akhtar & Shamsher Alam unfolds the growth trajectory of Micro Finance models and its contribution for sustainable development. Mutual Fund sector is growing in India. It has to make inroads into investors in a big way. Tamragundi's article covers the history and development of Mutual Fund Industry in India. Hundekar and Makandar's article deals with Industrial development in Karnataka with focus on past, present and future. The article compares Karnataka's industrial growth vis-à-vis that of the industrial growth in India. Narasimha Prakash's article 'A Brief History and Development of Banking in India and its Future' elucidates the growth of banking industry in a surgical passion. We have included one post graduate management student article in this issue for the first time. This would be a permanent feature of AMBER. Hetal S.Ved is that lucky one who contributed the first article in this section. Her article is on the history of Insurance sector. Case study by Usha Devi on an entrepreneur from unorganized sector and book review are other features of this volume.

This issue is the result of perseverance and perspiration of Dr. Kamini Dhruva, Professor and good friend of mine. Hats off to you Kamini! You have done it in style!

The next issue of AMBER would dwell on **'Corporate Social Responsibility and Governance'.** Today, there is urgent need to sensitize corporate citizens, students, academicians and policy makers about the importance of CSR and Corporate Governance. More research needs to be done in this area. Our coming issue is an effort in that direction.

I solicit readers' opinion and suggestions to make AMBER better.

Dr. H. R. Venkatesha

Chief Editor

CONTENTS

ISSUE THEME: Indian Business and Industry-An Historical Perspective

1 TRADE AND MERCHANT GUILDS IN MEDIEVAL SOUTH INDIA: AN INCISIVE INSIGHT

***Dr. A. Dhanalakshmi**

*Coordinator, AAMS, Acharya Bangalore B-School, Bangalore

Abstract

In the economic history of Medieval South India the term 'guild' ***(sreni)*** has assumed importance. The genesis for this etymology goes back to the time the Pre-Christian era when expression ***nagaram*** is found mentioned in the Tamil Bhrami inscriptions of the second century BC . The mercantile organization has gained momentum on account of the urbanization and economic growth. This paper discusses the major trade and mercantile guilds such as, ***Nagarams, Ainnurruvar, Padinenvishayam, Manigramam, Valanjiyar, Erivirathalam, Nanadesi*** and the like which acted in the ancient days as potential centres for urban growth.

Introduction

The term 'guild' ***(sreni)*** has gained importance in the economic history of Medieval South India, The genesis for this etymology goes back to the time the Pre-Christian era when the expression ***nagaram*** is found mentioned in a Tamil Bhrami inscriptions of second century BC . This mercantile organization has gained momentum on account of urbanization and economic growth since then the ***nagaram***s acted in those days as potential centres for urban and business growth. These served as marketing centres in order to enable the agrarian people to sell their products. With the advancement of ***nagaram*** units as a nodal point with which several networks where created, had assumed the status of ma***nagaram*** is an apex central unit. This ma***nagaram*** was corporate body the small units which functioned at village levels.

In the beginning of the establishment of the ***nagaram*** units, members of the mercantile organizations framed the code of conduct or rules, regulations, qualifications and so on. The South Indian inscriptions enable us to visualize the picture of such organizations that existed in South India.

The term dharma has been attributed to the merchants (***vaniks***). This was closely followed by even the itinerant merchant bodies. Inscriptions from 8th – 12th centuries or even little later, trace the development of the ***nagaram*** and its members who are called nagarattar. Their establishments came to be called '*angadis*'. Names of several organizations figure in the inscriptions of the medieval period. The expressions vanik, ***sreni***, apanika, nauvittaka, sarthavaha do indicate the different categories of trade with which the merchants were associated in Medieval South India. Many scholars have attempted to trace their trade activities.

Messrs K.V. Subramanya Aiyar, R. Champakalakshmi, Y. Subbarayalu, P. Shanmugam, M.D. Sampath and others have made rich contributions to understand the merchant guilds of South India.

From among the records available to understand the distribution of merchant guilds Karnataka stands first followed by Tamil Nadu and other states (for details see Table 1).

The urban centres had bigger merchant

units called '***perangadi***' which are known to have had control over smaller markets. Instances may be quoted to prove the mercantile transactions, the mode of their transactions and the developments witnessed during the medieval periods. To cite a fitting example for the function of the ***managaram***, eleventh century inscriptions from Palamangalam in Erode District (Tamil Nadu) may be studied. The text reads:

tisai-ayiratt-ainnurruva-nanadesiy-adaikkalam Kilanganattu Nittavinodatt-irundu

valum Vellalar Venduvan- Tairukkuraiyan eduppichcha-managaram

Inscriptions from South India indicate the commercial activities which were vigorously carried out under the umbrella of merchant guilds coinciding with the rule of the Cholas in Tamil Nadu, Chalukyas and Rashtrakudas in Karnataka, Kakatiyas and Telugu Chodas in Andhra and Cheras in Kerala. It is also known from inscriptions of South Asia and South East Asia about the interactions with these countries that the South India had.

As for the commercial transactions are concerned South Indian merchants travelled to far off islands and were involved in long distance trade. Dr. G. Coedes Dr. B. Ch. Chhabra, Dr. R.C.Majumdar and K.A.N. Sastri have contributed in their monographs on the nature of settlements of Indian merchants in South Asia and South East Asia. A number of inscriptions have come forward to attest the findings of these scholars. Inscriptions from Pagan Myanmar, China, Thailand and Indonesia refer to the activities that these countries had with South India and Sri Lanka. It is interesting to find from the records that they have not yielded to any political power. Inscriptions of Medieval South India trace their trade centres, mercantile towns and the commercial activities of the itinerant and local traders. It cannot be set aside that there was no royal patronage in promoting the mercantile activities. The mercantile guilds gradually built up their organizations and entered into the mercenary activities in order to protect and themselves and their commercial interests.

Inscriptions from South India give a clear picture about the functional modalities, characters, power and about the activities of the following mercantile guilds, ***viz.,Ainnurruvar, Nanadesi, Manigramam, Vaniganagarattar, Valanjiyar,Padi nenvishayam, Padinenbhumi, Anjuvannam ubhaya nanadesi and samasta orNanadesala pekkamdru.***

***Nagaram*s**

Besides these mercantile organizations, the ***nagarattar*** organization gradually developed through the different centuries. The ***nagarattars*** had interaction with some of the above mercantile organizations and seem to have had a wider network. For instance, there is a reference to the ***nagaram*** being controlled by ***Aiyyavole*** as at Karavandapuram in Tirunelveli District of Tamil Nadu. Another group of merchants (Sankarappadinagarattar) was involved in the distribution of oil etc., and they carried on oil trade in 11th century AD at Uyyakondan- Tirumalai and Valikandapuram in Tiruchi District, Sripurambiyam in Thanjavur District and Tirukkalatti (Kalahasti) in Chittoor District of Andhra Pradesh. Among the ***nagarams, Saliya nagaram and Sattam-parisatta-nagaram*** may be mentioned. The discussion about vanika-***nagaram*** can be found from Salem records.

The mercantile organizations represented by the weaving community grew gradually on account of the patronization of the Chola rulers. They were responsible for the textile production in weaving centres. The weavers in the different states under the Cholas, the Pandyas, the Kongu Vellala in Tamil Nadu, the Kakatiyas in Andhra had developed their trade activities and establishments. They had also expanded their activities to Karnataka on account of the interaction between Karnataka and Tamil Nadu. Their activities were involved in the marketing of cloth in Karnataka due to various factors like the contiguous areas, transportation, migration and settlement of the weavers and so on.

The weaving traders took keen efforts to promote the trade by establishing ***nagaram*** centres : '***Saliya nagaram***' ***Sattam-parisatta-nagaram*** etc. Instances may be quoted for the establishment of such centres at Gangaikondacholapuram in Tiruchi District, Pattamadai in Tiruneveli District and Chidambaram, Tirukkoyilur in South Arcot District and Sripurambiyam in Thanjavur District. In Tamil Nadu not only the Cholas but also the Pandyas took keen interest in promoting the weaving trade.

Inscriptions of the period of Maravarman Virapandya (13th century) refer to the establishment of a weaving centre called Saliya***nagaram***. Saliyars are generally called the weavers. They had an established trade centre in the Salem region. The trade of the saliyars received the patronage of the rulers from the time of the Cholas till the period of Vijayanagar ruler Krishnadevaraya (1509 – 1529 AD). Like Salem in Sela nadu, Kanchipuram in Chengalpat District was also known for its weaving activities during the pre-Chola periods.

Ainnurruvar

From among the various organizations one of the biggest organizations is known as Ainnurruvar (a group of 500) This number 500 indicates the epigraphs from Andhra, Karnataka and Tamil Nadu. It is an organization which consists of itinerant merchants with which several other organizations were linked. The above organization assumed different roles in different areas at different periods. On account of the insufficient commercial growth this organization has drawn a blank in Andhra as far as the interactions are concerned. The activities were confined to coastal regions of Andhra Pradesh. Inscriptions from Karnataka give a clear picture about the activities of the Ainnurruvar guild.

Being one of the biggest organization in South India, is the Ainnurruvar, it is an over - arching organization of itinerant merchants with which other organizations co-opted in several ways. It enjoyed different status in different areas so as to suit the local agrarians and their functions. The activities of the Ainnurruvar from Karnataka are revealed through early inscriptions prior to 10th century. Aiyyavole (one of the inscriptions from Karnataka belonging to Satyasraya dated Saka 931, 1009 AD) speaks of this guild. There was a gradual increase in the number of inscriptions referring to Ainnurruvar. This rise may be attributed to the fact that there was Chola incursion in to the Karnataka territory which resulted in the diversion of their activities. Three inscriptions from Mysore and Mandya districts of Karnataka stand testimony to the Chola occupancy during the first half of the 11th century .Of the two inscriptions from Aihole in Hungund taluk of Bijapur district datable to 8th century AD, one refers to the donations made by the Chaturvedis of Aryyapura to Bennama Somayaji, thanks to the goddess Durgabhagavati. These Chaturvedis formed into a group of organizations and donated to a Brahmin for the purpose of carrying out some Samavarttana suggested in Vedic literature. It is clear from this text that the Ainnurruvar Chaturvidya Samudaya is a Brahmanical organization whose mercantile activities are not definitely known in the early period. The eulogy of Ainnurruvar referred to in the inscriptions of the 10th century and thereafter refers to Aihole/ Aryapura on the basis of Bedkihal record of the 10th century. The record from Kamudi in Ramanadapuram District in Tamil Nadu gives the earliest reference to the term Ainnurruvar. This does not mention the eulogy of the organization.

Another earliest reference about this

organization comes from a record of Chola King Parakesarivarman identical with King Vijayalaya (870 AD) from Munichandai in Tirumeyam taluk of Pudukottai district in Tamil Nadu. The ainnurruvar organization of merchants known from several parts of South India claim their origin to be from Aiyavole i.e. the present Aihole in Bijapur district of Karnataka. The eulogy of the Ainnurruvar started appearing in Tamil Nadu from the latter half of the 10th century, while in Karnataka and Maharashtra from the first half of the 12th century. However, the inscriptions from Kolhapur and Miraj in Maharashtra of the above period quote the eulogy which has relevance to these eulogies from Kannada records. The Kamudi epigraph, though do not mention the name Aiyapolil or Aihole, it has been considered as a merchant guild inscription of the group Ainnurruvar on the basis of the name ***gamundasvami***, which is known from Kannada records. The Kolhapur record of Gandaraditya dated Saka 1058 (1136 AD) (Ep.Indi. Vol XIX, No. 4d) refers to Ahichchhatra, also called Ayyavolepura, where the ***ayinurvva svamigal*** existed, while the Miraj inscriptions dated 1142 AD (Ep.Ind. Vol XIX. Pp.37 – 41) mentions that the five hundred ***svamis*** have come out of Ahichchhatra, who are the supreme lords of the town of Ayyavole.

On the basis of the composition of the merchant groups and their associated groups, the role of Ainnurruvar guild and their activities could be assumed. As merchant group, it possesses 500 charters ***(panchasata virasasana)*** and have Lakshmi in their chest. They are the descendants of ***Vasudeva, Khandali*** and ***Mulabhadra*** and as the sons of Parameshvari. They transacted with a wider areas including 18 ***pattanam*** (towns), 32 ***velapuram*** (coastal towns) and 64 ***kadigaittavalam*** (camping places). This organization also includes the ***chetti, chettiputrar, kavarai, gamundasvami, siriyatolil variyar, ariyar, and avanakkaran***. The ainnurruvar merchants consisting of these people, chettis, and the load carriers ***(ulpasumbaikkaran)***, store keepers ***(avanakaran)*** or registrar, the brokers ***(ulagar)***, security persons ***(angakaran)***, representatives ***(senduvadu)***, etc. took part in the business transactions in order to increase the wealth or monetary conditions with minimum loss ***(kalimeliya)***, and by keeping up the reputation and by establishing the righteous business ***(samayadharmam)***. This clearly establishes the fact that the Ainnurruvar was a central chamber of commerce with governing bodies.

The only inscription from Andhra Pradesh that mention about the Ainnurruvar guild is from Tripurantakam, dated Saka 1214 (1292 AD). In this record the Ainnurruvar of the fifty guilds included the representatives from the ***Reddi***, the ***Setti***, the ***Nayumdu***, the ***Boyamdu*** (cowherds) and dasari from different regions. The Ainnurruvar organization is referred to as the protectors of the ***chatur varnasrama dharma***. This guild was associated with another guild, ***nanadesa pekkamdru*** and they took common decisions on the temple management at Tripurantakam. As far as the Karnataka inscriptions are concerned groups like ***gavaregaru, gatrigaru, velakararu, biraru, biravanigaru, gavumdaru, gavunda swamigalu*** and so on are known to have association with the Ainnurruvar for the purpose of trade transactions. The ***prasasti*** found in the inscription of Bedkihal, Hanamanhal Managoli in Bijapur and Belgaum district, datable to 10th - 12th centuries AD, mention about the ***entunada padinaruvaru*** who took interest in the activities Ainnurruvar organization.

The composition of Ainnurruvar group while making grant is compact. According to a record of 1142 AD, several groups supported this organization in Karnataka. Of the 16 places where these organizations functioned, three are from Tamil Nadu, two from Maharashtra, one from Andhra, while ten places are from Karnataka. This was an effective organization which was initially started at Karnataka and spread to other areas. In Tamil Nadu, the Ainnurruvar body acquired a composite status. As an example a record from Tirumalai from Ramanathapuram district may be cited to reveal the composition. In the 12th and 13th centuries these organizations seem to have functioned in a unified way with different aims and objectives concentrating more on the large-scale trade and spreading the business to several areas.

The members belonging to the group ***padinen vishayam*** supported this organization. It may be inferred from the way in which Ainnurruvar and ***padinen vishayam*** shared the responsibilities in organizing the trade (elaborately mentioned in the Piranmalai records and other inscriptions). The Ainnurruvar were the itinerant merchant guilds which took active part in organizing both the itinerant as well as the external trades and has close links with other groups. The five hundred traders of the thousand directions from various quarters were powerful international merchant guilds which mainly functioned from Karnataka, and Tamil Nadu and managed the transactions both inland and across the seas. As a proof of this, it may be quoted that the inscriptions from Barus in Indonesia, dated Saka 1010 (1088 AD). Padaviya, in Srilanka (dated 1200 AD) shows that Ainnurruvar seem to have functioned conjointly with Padinenbhumi (same as ***Padinenvishaya*** group) besides the minor groups like ***nattu chetti, kavarai, gatrivan, angakaran, avanakkaran***, (registrar of accounts), ***ulpasumbaikkaran*** (merchant with sack) etc. during 11th and 12th centuries AD.

The merchant guilds with mentioned overseas contact from 11th to 13th centuries are ***tisai ayirattu ainnurruvar, ayirattu ainnurruvar, nanadesi*** and ***ubhaya nanadesi.*** They were the itinerant merchant guilds which took active part in internal as well as external trade. They had close links with each other. The trade guilds like the thousand five hundred (traders) of all the quarters or the five hundred traders of the thousand quarters and the Ainnurruvar were powerful international merchant guilds which mainly functioned from Tamil Nadu and controlled commercial activities in various places both inland and across the seas. These merchant guilds in the course of their movement assumed importance and took the armed forces with them in order to protect their goods. The necessity for the creation of protected warehouses indicates the steps taken by the organizations on their trade routes.

The Ainnurruvar organizations have established centres in several places in Tamil Nadu. The ainnurruvar guilds like the five hundred merchants of Ayyavole, i.e. the present Aihole in Bijapur district, Karnataka, had its centres from about the 9th century to 14th century in places included in ***Kana-nadu, Nallur-nadu,Kilar-kurram, Pundurai-nadu, Uraiyur-kurram, Mulli-nadu, Kurumbur-nadu, Vadakalavali-nadu, Annalvayil-kurram***, and ***Kil-kundaru-nadu***. while the ***tisaiayirattu-ainnurruvar*** organization functioned from places included in ***Ven-nadu, Kurukkai-nadu, nallarru-nadu, Van-nadu, Kongu-nadu,*** during the same period.

The eulogy found in the inscriptions of the Ainnurruvar guild from Tamil Nadu are repeated in a similar fashion in the eulogy of the Pekkamdru as seen in the Nellur inscriptions of the Andhra Pradesh. The ***nagara pekkamdru*** stands for the representatives of the merchant community or guild of merchants with representatives of the town. This is a local organization, which is associated with ***settikara*** during the medieval period.

Manigramam

The merchant organization called Manigramam had its beginning in the Pallava period and became an organized group in Tiittandadanapuram (Tondi), Manigramam was one of the groups which represented the assembly. In the middle Chola period, it is from Manigramam centre that the merchants traded, improved their activities and interacted with other groups. The island areas like Kodumbalur in Urattur kurram, Uraiyur in Uraiyur kurram, Sundarapandyapuram, Valikandapuram etc. had established trade links with other organized centres. The Manigramam kodumbalur in early Chola period was one of the same merchant group which functioned during the Pandya period also. There is a reference to this organization in the Tamil epigraph from Takuapa, Southern Thailand which has already been discussed at length by Prof. K.A. Nilakanta Sastri. It states that the guilds Manigramattar and Senamugattar were given protection in the matter of transporting their products without any problem.

The reference to Senapati in the Takuapa inscription of the 9th century AD and the Senapati mentioned in Barus record of the 11th century AD. edited by Dr.Y Subbarayalu show that this mercantile guild had its own defense forces and the army chief in order to protect the commodities as well as the business and privileges. In this way the expansion of the mercantile activities as far up to South-East Asia during the Chola period is interesting to note. This was possible on account of the militant exertions of the Cholas, especially under Rajendra I (1012 AD) and the main aim was to carry on an unhindered trade between the Tamil country and South-East Asia.

The Manigramam and the Anjuvannam organizations transacted together on several occasions and particularly while collecting the taxes due to a local chieftain. If we examine the association of these guilds with another big organization called Anjuvannam or padinenvishaiyattar, it may be said that the bigger groups had control over smaller groups. The kodumbalur which acted as the centre of the organization gradually spread to other areas like Kovilpatti, Vanikkiramam, Tiruvellarai, Salem etc. in Tamil Nadu and to places like Kollam, Kottayam, Ramantali in Kerala and so on. The Manigramam differs from the body called Padinenvishaittar.

Valanjiyar

The merchant organization called Valanjiyar figures the inscription of the 11th to 13th centuries from Andhra, Karnataka and Tamil Nadu. They had ***Dharma*** as a protective measure which is referred to as Vira Balanjiya-dharma in Nellore copper plates inscriptions. These groups followed the code of conduct of the central chamber of commerce the Balligam record dated Saka 978 (1056 AD) while describing the Ainnurruvarsvamigal of the Ayyavole emphasizes the fact that they were the Vira Bananja-dharma. The Dambal inscriptions of the Chalukya Vikramaditya VI dated Saka 1017 (1095 AD), the Chintapalle record of Saka 1162 (1240 AD) and Tripurantakam inscription of Saka 1214 (1292 AD) all refer to Valanjiyar group of merchants. Its composite nature and activities are known through Nellore copper plate inscriptions of the 13th and 14th centuries AD.

The Prasasti of Vira Bananja conforms to a pattern found throughout Andhra and Karnataka. Their virtues, qualities and heroism are discussed in their eulogy. They are said to have immigrated from Ahichchhatra. Though they had leanings towards Jainism,they were also devoted to Shiva, Vishnu. The Mummuridamdagalu mentions of Vira Bananja dharma and also speak of them as Jinendra puja nirantarum. They have been controlled by central organization Ayyahole. They have been maintaining Samaya dharma by imposing punishment to those who violated the code of conduct.

Erivirapattinam

Like the valanjiyar, the merchant component of the settled group also traded from Erivirapattinam centres during the Chola and the Pandya periods particularly in the 13th century. It was an organized trade that was undertaken by these militant groups. The Eriviratanam or Erivirathalam were conferred to a mercantile settlement apart from the composition of Ainnurrruvar is attested to by the records from Sri Lanka. A number of Erivirapattinam centres are found mentioned in the inscriptions of Samuttirapatti in Madurai district, Vembati in Coimbatore district, Singalantapuram in Trichy district all in Tamil Nadu. Basinikonda in Chittoor district in Andhra and Kempanapura in Karnataka. The Erivirapattinam centres are also referred to as Virakavalam kottai of Ramanadapuram district, Uttattur in Tiruchirappalli district, Tirumalugandankottai in Ramnad district and Kattur in Chengleput district.

The earliest occurrence to Erivirappattana is from the inscriptions of Chola Rajendhiraja I from Basinikonda in Chittoor district and Kempanapura in Mysore district, Karnataka. The former record states that the thousand five hundred merchants of the four quarters including nadu, nagara and nanadesi met at Siravalli in Mugainadu in Purani Marayapadi in Jayangondasolamandalam and resolved to convert the village Siravalli into a Nanadesiya Dasamadi Erivirappattana and to grant certain privileges to the residents of that village.

Two more mercantile towns figure in the inscriptions of eleventh century from Uruguppe near Kempanapura and Aiyapolil Kattur in Chingleput district. They had been established in order to create protected warehouses for merchant groups on major trade routes. The militant character of the guild and the trade centres like Eerivirappattanas as well as the movement of the caravans with arms can be better understood from the description given in the prasasti portion of the Kattur inscription. The trade centres which have been converted as Erivirapattanas were associated to with the mercenary troops called Eriviras. These troops are provided with arms as protective measures and for their own defense.

During the period of Maravarman Sundarapandya, the Rajaraja Erivirapattanam was included in Mulli nadu and the place was known as Virakavalan kottai. The fort together with a mercantile town must have been established here in order to provide the mercenary troops with warehouses. When the caravans moved with armed forces, these centres had been placed under their use. Thus the centres of Erivirappattanam, served the army personnel, on trade routes. The sale transaction executed from Virakavalan kottai in Rajaraja erivirappattana, clearly shows that erivirappattana centres were under the control of trading guilds.

They are normally located on major trade routes. The reference of Erivirapattana in connection with its bestowal on Valanjiyas of Vikkiramapallavapuram is of particular significance. The group called Nirperunniraviyom is said to have conferred the status of Erivirappattanam on the aforesaid village, which was a hamlet of Saiyamurinadalvar-nadu in the fourth year of Rajendrachola who is identical with KulottungaI. The members like nandesikavarai-vitankar, Ainnurruvar-uyyakkondan and several others are known to have killed several persons. It is these persons who have taken a joint decision. They seem to have been the warring personages as is clear from their activities; and they have been extended to the sphere of militant guilds located in the different centres of trade.

Nanadesis

The mercantile corporations like Nanadesi, the Ayirattuainnurruvar and Ainnurruvar and Aiyampolil were active in some parts of Tamilnadu from 11th to 13th centuries AD. They were protecting the Samaya dharma in addition to the militant character. The Svadesi and paradesi merchants formed the Ubhaya nanadesis and the members of this guild are known as Ubhaya nanadesi pekkamdru. They are mentioned in the inscriptions of the Kakatiya Ganapatideva, Prataparuda and others. They had their own autonomy and unlimited power in the matters of justice. It is learnt from the records of Belgaum in Karnataka that these nanadesi guilds took initiative in carrying out the repairs in the temple of Ganapesvara. The nanadesi coopted with the militant groups settiguttas in contributing the revenue to the temples. This merchant guild took initiative in several socio-cultural activities and mentioned as status in the protection of the Samaya.

Mention may be made of the guilds from Alampur, Warrangal, Ganapesvaram, Chintapalle, Tangeda, Animala, Yanamandala, and Tripurantakam in the West and the records from Appapuram, Boggaram, Nellore etc. from coastal Andhra region. Nangegadda near Tangeda is an important port where the guild ubhaya nanadesi actively conducted their trade. Tangeda in Guntur district and Tripurantakam in Kurnool district were the main gateways where the dues were collected on the commodities purchased or sold. Merchant organizations like nanadesi pekkamdru, nanadesi nagara sandha, etc. were in charge of the collection of sumka on products. Nanadesi guild had desi merchants who worked in collaboration with Ayyavole guild. Desi uyyakyonda is the same as the nanadesi. The nanadesi organisation in Andhra Pradesh is referred to by several terms like Ubhaya nanadesi pekkamdru, ubhaya nanadesi, nanadesi pekkamdru etc.

Conclusion

In the foregoing discussion, the role played by ***Ainnurruvar, Padinenvishayam, Manigramam, Valanjiyar***, and ***Nanadesi.*** as merchant organizations/guilds overarching all the other organizations formed in a particular area during the 11th to 13th centuries in South India. Their role account for the economic growth of the princely States. This period coincides with the growth of power by the Chalukya, Chola, Pandya and Kakatiya who patronized the development of the agrarian conditions as well as the trade activities of the respective regions.

Table 1

District-wise Distribution of Merchant Guild Inscriptions

Area	Inscriptions	Area	Inscriptions
		ANDRA PRADESH	
Anantapur	7	Chittoor	3
Cuddapah	2	Guntur	6
Hyderabad	1	Khammam	3
Kurnool	3	Mahbubnagar	1
Nellore	3	Prakasam	1
Warangal	1	Visakhapatnam	4

Area	Inscriptions	Area	Inscriptions
		KARNATAKA	
Bijapur	18	Belgaum	7
Bellary	13	Bangalore	5
Chikmagalur	1	Chitradurga	6
Dharwar	19	Gulbarga	7
Hassan	11	Kolar	9
Mysore	20	North Kanara	1
Raichur	5	Shimoga	8
Tumkur	3		
		KERALA	
Cochin	2	Kottayam	2
Kazikkodu	2	Palghat	2
		MAHARASHTRA	
Kolhapur	1	Sangli	1
		TAMIL NADU	
Coimbatore	6	Chingeleput	5
Dharmapuri	1	Madurai	16
North Arcot	6	Pudukkottai	10
Erode	3	Ramanathapuram	12
South Arcot	9	Salem	03
Thanjavur	15	Tiruchirappalli	25
Tirunelveli	7		
		SRI LANKA	
		15	
		SOUTH EAST ASIA	
		3	
Total			314

(The districts refer to the old districts as referred to in the epigraphical publications, for convenience's sake. Many of them have been bifurcated during the three decades.

Source: Ancient and Medieval Commercial Activities in the Indian Ocean : Testimony of inscriptions and Ceramic-sherds, Chennai.)

References

1. Chakravarti, Ranabir, 1977-8, 'Economic Policy of Kakatiya Ganapati', JAIH, XI: 72-9.
2. ______, 1981, 'Kulothunga and the Port of Visakhapattanam', PIHC, XLII (Bodhgaya session): 142-5.
3. ______, 1995a, 'Rulers and Ports: Visakhapattanam and Motupalli in Early Medieval Andra', in K.S. Mathew ed., Mariners, Merchants and Oceans, Studies in Maritime History, Delhi: 57-78.
4. ______, 1996c, 'The Putabhedana as Centre of Trade in Early India', SAS, 12: 33-9.
5. ______, 1998a, 'Coastal Trade and Voyages in Konkan: The Early Medieval Scenario', IESHR, XXXV: 97-124.
6. Chhabra, B. Ch., 1935, 'Expansion of the Indo-Aryan Culture to South-East Asia during the Pallava Rule, as Evidenced by Inscriptions', JRASBL: 1-64.
7. Champakalakshmi, R., 1979, 'Growth of Urban Centres in South India: Kumamukku-Palayiarai, the Twin Centres of the Colas', SH, I: 1-30.
8. ______, 1996a, 'Trade, Idealogy and Urbanization: South India 300 BC to AD 1300, Delhi.
9. ______, 1996b, The Medieval South Indian Guilds: Their Role in Trade and Urbanisation, in D.N. Jha ed. Ideology and Society, Delhi: 81-94.
10. Chattopadhyaya. B.D. Studying Early India: Archaeology, Texts and Historical Issues. NewDelhi, 2003.
11. Coedes, G., 1968, The Indianized States of south-East Asia, Honolulu.
12. Karashima, Noboru, 1971, ' Relations between South India and China in Chola Times' in
13. Professor K.A. Nilakanta Sastri Felicitation Volume, Madras: 69-71.
14. Karashima, Noboru and Sitaraman, B., 1972, 'Revenue Terms in the Cola Inscriptions', Journal of Asian and African Studies, V: 87-117.
15. ______, 2002, South Indian and Sri Lankan Inscriptions relating to the Merchant Guilds in Karashima, N ed. Ancient and Medieval Commercial Activities in the Indian Ocean : Testimony of inscriptions and Ceramic-sherds, Chennai.
16. ______, 2002, Tamil Inscriptions in South east Asia and China in Karashima, N ed. Ancient and Medieval Commercial Activities in the Indian Ocean : Testimony of inscriptions and Ceramic-sherds, Chennai.
17. Karashima, N and Y. Subbarayalu, 2002, Ainnurruvar: A Supra-local Organisation of South Indian and Sri Lankan Merchants in Karashima, N ed. Ancient and Medieval Commercial Activities in the Indian Ocean : Testimony of inscriptions and Ceramic-sherds, Chennai.
18. Majumdar, R.C., 1927-38, Ancient Indian Colonies in the Far East, I Lohore; II Calcutta.
19. Majumdar, R.C. (general editor), The History & Culture of the Indian People, Volumes I-III,Bombay, 1951, 1968,1970
20. Nilakanta Sastri, K.A. 1939a, Foreign Notices of South India from Megasthenes to Ma Huan, Madras.
21. ______, 1974, A History of South India, Madras, (4th edition)

22. Sampath, M.D. 2009, 'Mercantile Organisations in South India – An Overview' Avanam Journal, 20, 2009 pp.161 – 186.
23. ______, 2003, Presidential Address in Studies in Indian epigraphy, Journal of Epigraphical Society of India, Volume 29, by Geetha Book House.
24. Shanmugam.P, 2002, Topographical List of the Merchant-guilds Inscriptions in Karashima, N ed. Ancient and Medieval Commercial Activities in the Indian Ocean : Testimony of inscriptions and Ceramic-sherds, Chennai.
25. ______, 1978, South India and south East Asia, Mysore.
26. Srinivastava, B., 1968, Trade and Commerce in Ancient India, Varanasi.
27. Subbarayalu, Y., 1973, Political Geography of the Chola Country, Madras.
28. ______, 1982, 'The Cola State', SH, IV: 265-306.
29. Subbarayalu Y. and P. Shanmugam, 2002, Texts of Select Inscriptions of the Merchant Guilds in Karashima, N ed. Ancient and Medieval Commercial Activities in the Indian Ocean : Testimony of inscriptions and Ceramic-sherds, Chennai.

2 Growth Trajectory Of Micro Finance Models: A Path towards Sustainable Development

***Mr. Asif Akhtar**

and

**** Mr. M. Shamsher Alam**

*Faculty, Dept. Of Management Studies, Aligarh Muslim University, Aligarh, UP.
**Research Scholar, Dept. Of Management Studies, Aligarh Muslim University, Aligarh, UP.

Abstract

Microfinance means providing financial assistance to poorest of the poor to alleviate poverty. It seems to be the effective tool to poverty alleviation with its social objectives. The moral edge, of the industry in providing loans to the poorest is rapidly eroded. There is need for an effective model which carries the social objectives of microfinance with justified profit motive of both lender and borrower.

This paper is an attempt to understand the key features of microfinance model prevailing in India and developing an overview of major challenges and issues associated with the microfinance model. The purpose of the study is to develop a conceptual promising microfinance model (Interest Free Microfinance Model) to address the challenges of the existing models.

The study is descriptive in nature and based on secondary data, collected through the existing literature and annual reports of financial institutions and government agencies engaged in microfinance. The statistical analysis has been conducted to draw meaningful conclusions and suggestion.

Introduction

Microfinance means providing the small amount loans to the down trodden in order to uplift that class. It started with social objective but lost in profit motive. The inherent conflict between social objectives and profit motives in the MFI industry put it into trouble. The moral edge, the industry enjoys through providing loans to the poorest is being rapidly eroded. The borrowers are often required to pay over a third what they borrow as interest every year. The interest rates are nearly usurious. The framework started with the prosperity theory is a growing threat of social debt in rural India. The worst impact of MFIs is revealed in Andhra Pradesh. Over a 100 borrowers of various microfinance institutions allegedly committed suicide; some women confessed they were forced into prostitution by other group member (of Self Help Group) to fulfill weekly payments obligations. There is a need to rethink about the structure of microfinance in India. It is necessary to know the growth trajectory to understand the sector better.

Evolution of Microfinance in India

Microfinance seems to be an effective tool introduced in 1980s to address the poor masses of India in order to create resonance with the slogan echoing in political premises “garibi hatao” led by Smt. Indira Gandhi. The poor masses were exploited by the sahukars (traditional money lenders). Many initiatives have been taken such as Chakbandi, abolition of Zamindari system, cooperative farming after independence. These initiatives had limited success. The social activists and reformers are in search of methodology for all round development of the Bottom of the Pyramid (BoP).

The development of Microfinance can be categorized into three phases since the 1980's (Sriram, 2010).

The first phase was when people who were working in the development sector discovered the methodology of reaching micro-loans to the poor through a methodology that was mastered by Grameen Bank. When the traditional system had serious costs (usurious rate of interest) and chit funds ran the risk of collapsing in defaults, Microfinance was the promising alternative that offered funds at the doorstep of the poor. This system ensured very low defaults as lending in groups provides an ability to self regulate (the other members of group exert pressure on a potential defaulter).

The second phase came in when the first generation organizations reached scale and sought methods to morph into for-profit commercial organizations.

Thus, there was a natural push for microfinance organizations to move into the commercial space. Unfortunately for the operators of microfinance, the move into the commercial space was not going to be simple. The options available in the commercial space to carry out microfinance activities were three:

1. Move the operations to a Non-Banking Finance Company [NBFC].
2. Move the operations to a co-operative format.
3. Set up a local area bank.

Each of these options had their own barriers from the perspective of the microfinance organizations. Setting up of a local area bank [which BASIX did after much scrutiny and delays in obtaining a license] was a painful and arduous route. The Reserve Bank was careful and miserly in granting licenses for banks, its area of operations were to be restricted to three contiguous districts and the capitalization required was Rs.5 crores, a significantly steep hurdle for the players operating at that time. The regulations also prescribed divestment of the equity stake in a specific time frame and diversification of ownership, with cap on voting rights irrespective of investments. All these did not make the prospect attractive for anybody to pursue.

While several initiatives took off on the co-operative format, the design of co-operatives dictate it to be user-member based and therefore posed a challenge of continuously raising capital from the members, a much more difficult, slow and arduous route.

This actually left the players with only one option of setting up of an NBFC. While BASIX had set up its operations in the for-profit space right from the beginning – through a complex structuring of softer loans obtained from patient investors like Ford Foundation and the Swiss Development Co-operation in a highly leveraged holding company and down streamed as equity in an operating company, it was not possible for the others to replicate the model.

The third phase is when mainstream commercial institutions like L&T finance, Equitas and the private equity players started looking at microfinance as an interesting business. The commercial institutions surpass the social objectives of Microfinance which leads to present crisis of Microfinance.

Literature review

Providers and models of microfinance

MIX defines an MFI as "an organization that offers financial services to the very poor." (MIX, 2005). According to the UNCDF (2004) there are approximately 10,000 MFIs in the world but they only reach four percent of potential clients, about 30 million people. On the other hand, according to the Microcredit Summit Campaign Report (Microcredit Summit, 2004) as of December 31st 2003, the 2,931 microcredit institutions that they have data on, have reported reaching "80,868,343 clients, 54,785,433 of whom were the poorest when they took their first loan". Even though they refer to microcredit institutions, they explain that they include "programs that provide credit for self-employment and other financial and business services to very poor persons" (Microcredit Summit, 2004).

Rotating Savings and Credit Associations

These are formed when a group of people come together to make regular cyclical contributions to a common fund, which is then given as a lump sum to one member of the group in each cycle (Grameen Bank, 2000a). According to Harper (2002), this model is a very common form of savings and credit. He states that the members of the group are usually neighbours and friends, and the groups provides an opportunity for social interaction and are very popular with women. They are also called merry-go rounds or Self-Help Groups (Fisher and Sriram, 2002).

The Grameen Solidarity Group model

This model is based on group peer pressure whereby loans are made to individuals in groups of four to seven (Berenbach and Guzman, 1994). Group members collectively guarantee loan repayment, and access to subsequent loans is dependent on successful repayment by all group members. Payments are usually made weekly (Ledgerwood, 1999). According to Berenbach and Guzman (1994), solidarity groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as the Grameen Bank, who use this type of microfinance model.

Village Banking Model

Village banks are community-managed credit and savings associations established by NGOs to provide access to financial services, build community self-help groups, and help members accumulate savings (Holt, 1994). They have been in existence since the mid-1980s. They usually have 25 to 50 members who are low-income individuals seeking to improve their lives through self-employment activities. These members run the bank, elect their own officers, establish their own by-laws, distribute loans to individuals and collect payments and services (Grameen Bank, 2000a). The loans are backed by moral collateral; the promise that the group stands behind each loan (Global Development Research Centre, 2005).

Research objective and Methodology

The need of the research is to determine the attitude and perception of the focussed group (customers of Microfinance Institutions, common people, and Microfinance Institution's employees) regarding Microfinance in India. It helps to determine the grass root challenges faced by the customers of Microfinance Institutions and Microfinance Institutions. The research addresses the present Microfinance Crisis in Andhra Pradesh.

The Research Objectives and Scope

The objectives of the research are -

- To develop an overview of the available Microfinance model in India.
- To develop an alternative model of

Microfinance and alternate financing institutions.

Research Methodology

The research design is descriptive research design. The study is based on secondary data which is collected through various sources like annual reports of various MFI's. The model is developed on alternative microfinance model by taking inputs from existing studies on challenges and issues in Microfinance.

The Existing Models of Microfinance in India

The basic methodology being used in commercial microfinance in India was innovated by Grameen Bank and later improvised by several players. This methodology involved the following elements:

1. Identify the potential customer.
2. Organise the potential customers into groups, so that they could address the issue of information asymmetry and lack of collaterals by transferring what could be an individual liability into a group liability and hold the group morally responsible for repayment – through a process of public oath.
3. Have standardized products, standardized operating systems and enforce discipline; ensure that the exceptions were dealt with severely.

Non Government Organisation (NGO) Model: This is the model practiced in the initial phase for social objective. This was emerged as the alternative when local money lenders were charging usurious rate of interest without considering the problems of the individual borrowers and chit funds ran with the risk of collapsing if there were defaults. In this model the utility of the borrower is of prime concern and small groups were formed. The lending was usually based on economic activities rather for consumption. The interest rates were low which caused problem to self sustainability of the NGOs. This model was very similar to Self Help Group (proposed by Mahatma Gandhi).

The model primarily focuses on the social causes rather than economic sustainability. The equilibrium between effort and reward is violated. The effort of poverty alleviation is one sided (from NGO) which leads irresponsible borrowing, large area coverage problem and threat to the self-sustainability of the NGOs.

Self Help Group Model (SHG) Model: This model is highly influenced by the success of Grameen Bank in Bangladesh. This model is commonly practiced with PSU banks and SHG linkage. PSU banks had Rs. 1000 crore exposure to SHG based loans, lent another 60 crore to MFIs. The SHG concept involves forming groups of 15-20 women who meets regularly, understand each other's problems and bond for a while. They are expected to save a small amount, keep the money in bank and earn interest. A member could borrow if she falls ill and couldn't go for work. She would return the money with 18-24 per cent interest to the group. The recovery is almost certain due to the pressure and bonding with the group. Such groups formation and bonding takes a minimum of six to none months.

The basic problem with this model is long operational time and lending for non-income generating activities. The pressure of repayment creates coercions which lead to multiple borrowing or illegal practices by the group member. The problem arises for the regulation.

Joint Liability Group (JLG Model): In this model, agents of MFIs persuade 4-5 women to form a group and each guaranteed the other's loans. Most of the members could not develop the bonding like SHG. The MFIs charge 12-18 per cent in JLG, compared with that of 18-24 percent charged by SHG primarily run by the PSU banks. MFI interest rates are non-transparent and effective rates are over 27 per cent, considering loan processing fees, penalties and hidden charges.

This model primarily focuses on the profitability of MFIs. The repayment rate is also low due to weak bonding among the group members. The credit generation is more than the actual production (economic activities). Though, most of the MFIs claim they have lent for income generating activities, in reality, most lending has been for consumption purposes – buying a TV, repairing a house, paying for school fees or for serious illness of a family member. Thus indiscriminate lending and irresponsible borrowing is encouraged, leading debt trap and Microfinance Crisis.

Challenges and Issues of existing Microfinance Model

a) **High Interest Rate**: This is one of the basic problems with the existing model. The MFIs are justifying it with high operational cost. The borrowers are only facing the uncertainties of the failure of their business. The studies reveal that maximum borrowing is for agricultural needs, which is highly risky engagement. If the yield is low so the farmers are caught in one hand debt trap and on other hand starvation. It is difficult to pay weekly payments with such a high interest. The condition becomes miserable if borrowers borrow for non income generating activities.

b) **Multiple Lending**: The Malegam Committee report notes that repayment of old debt accounts for about 25 per cent of new loans taken by JLG/ SHG in Andhra Pradesh, while another 25 per cent goes to income generating activities. The borrowers borrow from more than one MFI. They borrow from one MFI to repay loans to another MFI rather focusing on the pace of income generation activities. This causes debt trap and the conditions become same as Sahukar's lending.

Table No.1: Description of the loans

Sl. No.	Range (Loan size)	Number of loan accounts	Amount of loan Rs.	Average loan amount Rs.
1	Rs. 0 to Rs.500	46,687 (37.3%)	1,72,52,074 (9.7 %)	370
2	Rs. 500-Rs. 1000	37,125 (29.7%)	3,48,79,579 (19.5 %)	940
3	Rs.1000 to Rs. 3000	3,0382 (24.3 %)	6,16,59,704 (34.5%)	2,029
4	Rs. 3000 to Rs. 5000	7591 (6.1 %)	3,39,40,225 (19.0%)	4,471
5	Rs. 5000 to Rs. 7000	1326 (1.1 %)	82,59,600 (4.6 %)	6,229
6	Rs. 7000 to Rs. 10000	1329 (1.1 5)	1,23,93,264 (6.9 %)	9,325
7	Rs. 10,000 to Rs. 15,000	366 (0.3%)	48,61,456 (2.7 %)	13,283
8	Rs. 15,000 and above	229 (0.2 %)	54,74,722 (3.1 %)	23,907
	Total	**1,25,035 (100%)**	**17,87,20,624 (100%)**	1,429

Source: MRCP database (2002)

Coercive methods adopted for the repayment of loans: the coercive methods are adopted for the repayment of the loans. The villagers are generally illiterate and weak so they could not resist. The pressure of the group members of JLGs/ SHGs is coercion.

c)Lending for consumption need: The lending for consumption needs exceeds which causes the problem of repayment for the borrowers. The consumption needs such illness of the family member, for the payment of the school fees buying electronic appliances such as TV, motor bike, refrigerator etc.

Table 2: Description of the lending

Purpose	% share in number of loan accounts	% Share in loan amount
Consumption	35.27	28.99
Agricultural loans	53.37	57.41
Off-farm enterprises	7.98	10.95
Loans for education	3.38	2.65
	100	100

Source: MRCP database

Low penetration and bureaucratic hurdles in regulations: there is low penetration in northern India. There are lots of bureaucratic hurdles in the regulation (such as corruption, commission with groups etc.). The local leaders declare "no repayment" to gain the political mileage, but this cause's serious problem for MFIs. The illiteracy and unawareness is another challenge for the penetration.

Interest free model of Microfinance

Self Employed Group (SEG) model

The model discussed here is based on profit and loss sharing model. In this model focus is on the purpose of credit generation. The problem of poverty is solved when unemployment is reduced and there should be fair distribution of the production. In the existing model the MFIs are reaping the profits with fixed high returns in the form of high interest whereas the poor becomes poorer and get trapped in debt. The working of this model is like cooperative societies. The group is formed and feasible business of their interest is given which is run under the guidance of MFIs. There are lot of farming and non-farming business opportunities in the rural and sub urban areas of India.

This model addresses the four classes of the villagers

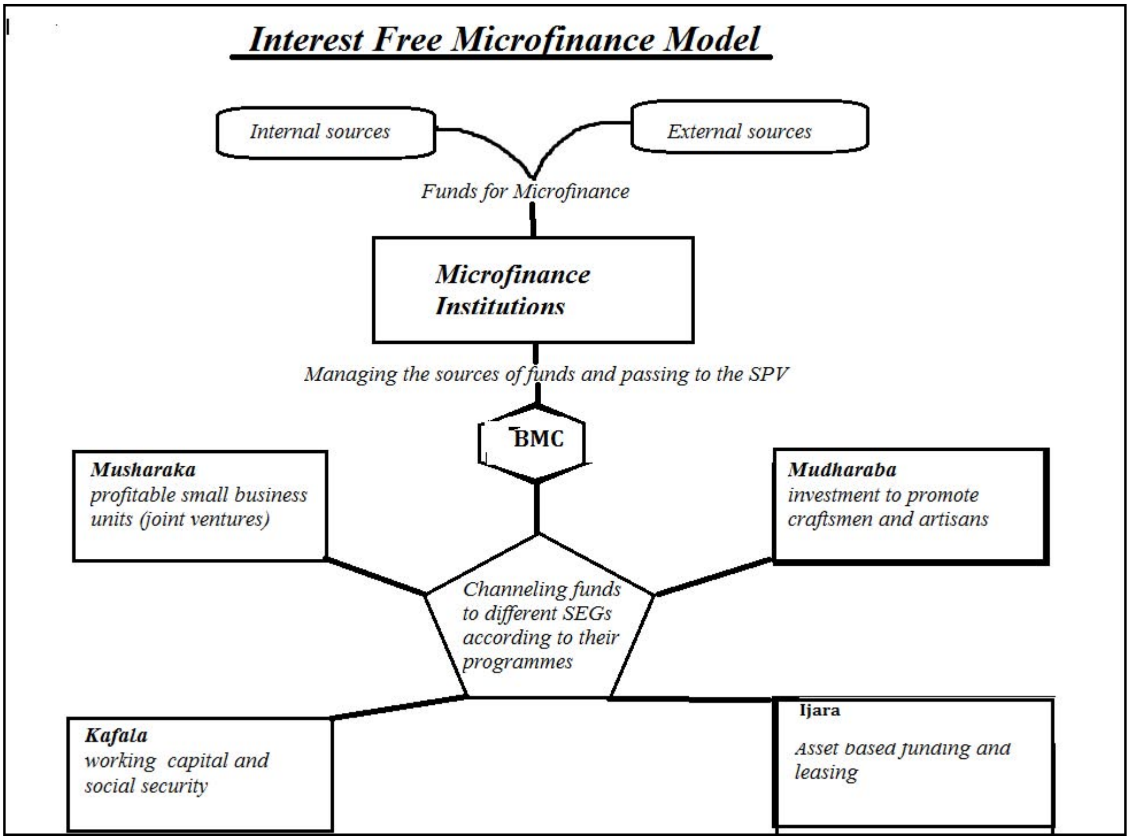
1. Villagers with adequate savings
2. Skilful villagers
3. Villagers engaged in business required machines and equipments
4. Consumption needs of the villagers (group members)

There are four programmes run to cater the needs of each group. Musharaka programme for partnership business, Mudaraba programme for skilful man force, Ijara programme for asset financing or leasing and Kafala programme for consumption needs and social security of the group members.

Sources of the funds

The internal sources of the funds are the profit share from the programmes and pool funding by the Kafala Programme. The external sources of the funds are equity shares.

In this programme, MFIs promote entrepreneurship on profit and loss sharing basis. It is intended to make the villagers leverage their savings. In this system, both MFI and SEG members contribute in the musharaka business unit like dairy farm, poultry farm etc. and in return both



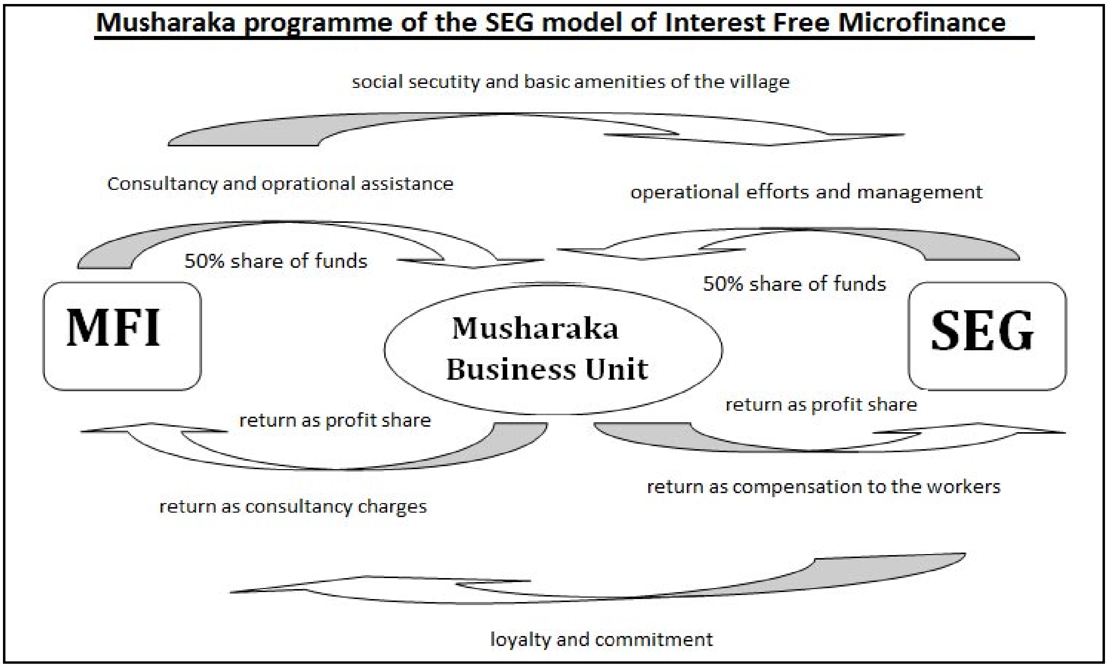
This model is proposed by authors*

Basic Microfinance Centre:

These units are meant to control and provide assistance to the SEGs. It comprises the professionals who are compensated with fixed salary and incentives as per the performance of the development programmes. These centres provide necessary trainings and consultancy to the SEGs

will enjoys the profit share. The SEG members are further compensated for their operational efforts whereas MFIs for their consultancy and operational assistance. The MFIs may take the help of the National Small Industry Corporation (NSIC), a Government organization which promote small scale industries.

Musharaka Programme:



This model is proposed by authors*

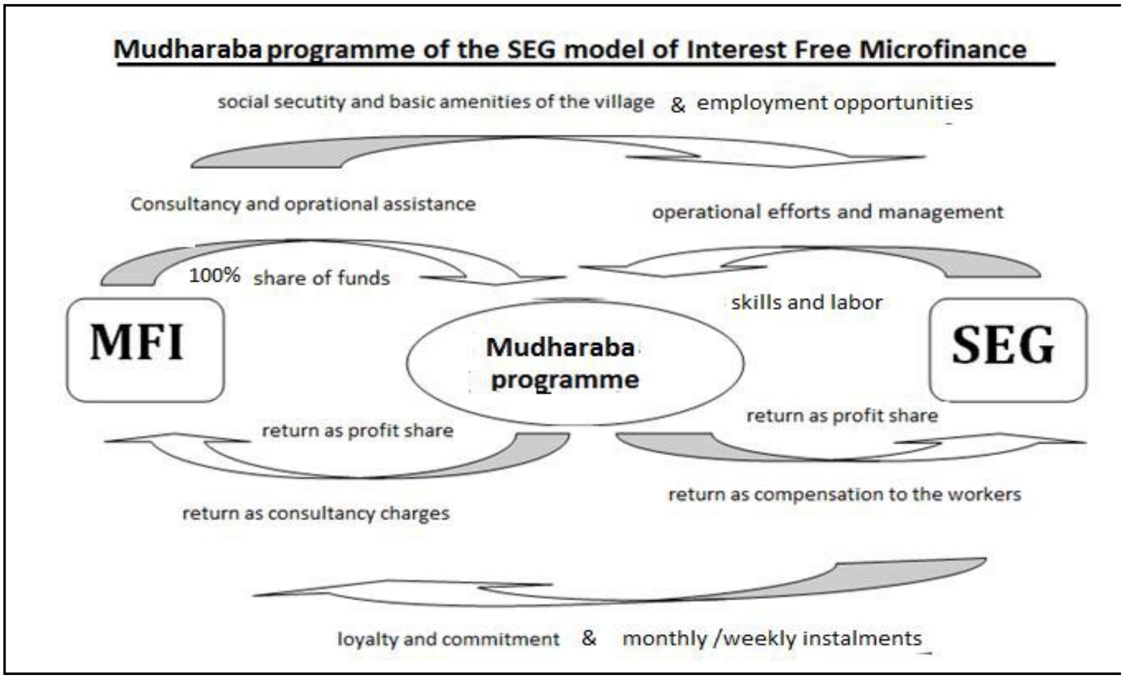
Mudaraba Programme

In this programme, the MFI invest 100 per cent whereas the group members use their skills and labour. This programme will provide abundant employment opportunities to the villagers. Basic Microfinance centres (BMC) provide training to unskilled man force so that the funds are utilized for the economic activities.

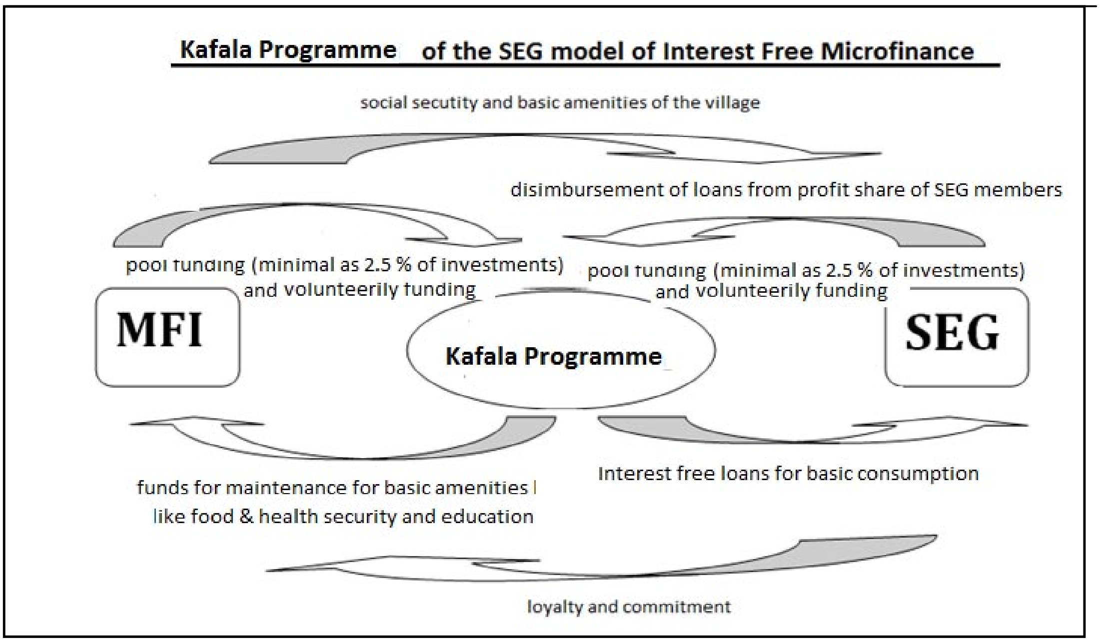
The SEG group members have to pay weekly or monthly payments of the installments. The district polytechnic colleges may be utilized for providing training and skills. The various skilled work forces is generated with this programme for the SMEs like dairy farming, poultry farming, food processing etc. or for independent services like auto mechanic, barber, tailor etc.

Kafala Programme

In this programme, the MFIs focus on the consumption needs and Social security of villagers along with provision of basic amenities of the villages such as food and health security, education, electrification, hygienic conditions etc. This will increase the loyalty, trust and commitment of the villagers as a whole. This programme is meant for the social objectives of the MFIs for the sustainable development of the country. This programme is run by the compulsory 2.5 per cent of investments of both MFIs and group members and voluntarily pool funding of both.



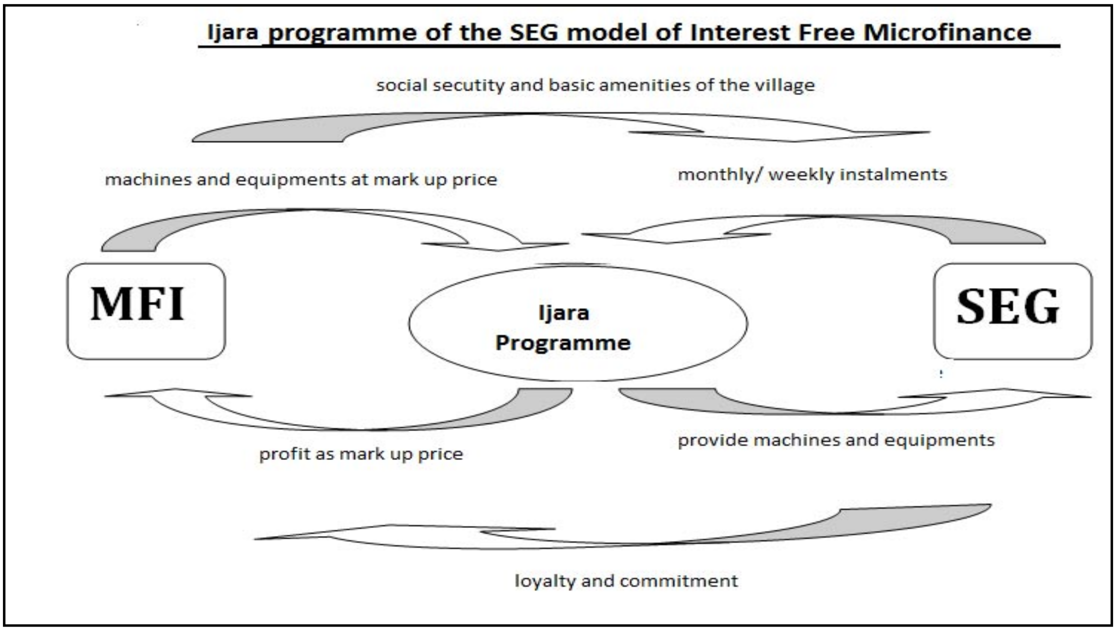
This model is proposed by authors*



This Model is proposed by authors*

Ijara Programme (Leasing finance)

This programme is run for providing necessary machines and equipments for farming and non- farming activities. Under this programme



This Model is proposed by authors*

machines and equipments like tractors, thresher machines, harvester machines, grinding machines etc are provided either on lease or selling on credit with mark up price so that these machines are affordable for the villagers.

Feasibility of the model

The Model is feasible as it gives high return and risk is shared by both MFIs and SEG group members. In the existing models the risk is not shared whereas both the models (SHG and JLG) are the extremes as one talk about the social objective which is a threat for self sustainable MFIs and talk for profit motive only which neglects social concern of the villagers which leads to coercion and disloyalty of the customers. This model is self-regulatory and intended for sustainable growth rather to make credit slaves. The model addresses all the groups of the village. It focus on the basic amenities of the village too which enhance the commitment, trust and loyalty of the villagers.

Conclusion

This article reviews the evolution of microfinance over the past thirty years and examined briefly three of the MFI models that exist today. The role of MFIs in development, specifically in relation to alleviating poverty was also examined. Key challenges facing MFIs today that are affecting their impact on poverty alleviation were seen to be an over-emphasis on financial sustainability over social objectives, and a failure of many MFIs to work with the poorest in society. Therefore, there is a greater need for MFIs to carefully design services that meet the needs of the poor and this can only be done when MFIs understand their needs and the context within which the poor are working (Morduch, 2004). If MFIs are to meet their overall development objectives then they need to ensure financial sustainability and outreach of financial services designed to meet the needs of those most in need of such services.

References

1. Angelini, P. and N. Cetorelli (2003). "The Effects of Regulatory Reform on Competition in the Banking Industry". Journal of Money, Credit, and Banking Vol.35, pp.663-684.
2. Assegai, E., Hermes, N and Meesters, A. (2010). "Competition and Performance of Microfinance Institutions". Humanomics: International Journal of Systems and Ethics. Vol. 24, Issue 1,
3. Berenbach, S. and Guzman, D. (1994). The Solidarity Group Experience Worldwide IN Otero, M. and Rhyne, E. (Eds), The New World of Microenterprise Finance: Building Healthy Institutions for the Poor. West Hartford, CT: Kumarian Press. 119 – 139.
4. Grameen Bank. 2000. Annual Report 2000. Dhaka: Grameen Bank.
5. Hermes, N., R. Lensink and A. Meesters (2009). "Financial Development and the Efficiency of Microfinance Institutions". Centre for International Banking, Insuranceand Finance Working Paper, University of Groningen.
6. Holt, S. (1994). The Village Bank Methodology: Performance and Prospects IN Otero, M. and Rhyne, E. (Eds.), The New World of Microenterprise Finance: Building Healthy Institutions for the Poor. West Hartford, CT: Kumarian Press. 156–184.
7. Humle, D. and T. Arun (2009). "The Future of Microfinance, in Microfinance: A Reader
8. McIntosh, C. and B. Wydick (2005). "Competition and Microfinance". Journal of Development Economics, Vol.78, pp. 271–298
9. Morduch, J. and Haley, B. (2002). "Analysis of the Effect of Microfinance on Poverty Reduction". NYU Wagner, Working Paper No. 1014. New York University, NY.
10. Reddy, C. and Manak ,S. (2005). "Self-Help Groups: A Keystone of Microfinance in India-Women empowerment & social security". APMAS, Hyderabad India.
11. Robinson, M. 2001. The Microfinance Revolution: Sustainable finance for the Poor. The World Bank
12. Sriram, M (2010). "Commercialisation of Microfinance in India: A Discussion on the Emperor's Apparel". W.P. No. 2010-03-04, IIM Ahmadabad, India.
13. State of the Microcredit Summit Campaign Report 2004.
14. UNCDF (2004) Participation in the Joint Government-Donor Review of the National Decentralisation Plan, Back to Office Report.
15. Vijverberg, W. (1988), "Profits from Self-Employment", LSMS Working Paper No. 43, Washington DC: World Bank.

3 History and Development of Mutual Fund industry in India

***Dr (Ms) A. N. Tamragundi**

*Asst. Professor, P.G Department of Commerce, Pavate Nagar, Karnatak University, Dharwad- 580 003

Abstract

The formation of Unit Trust of India marked the evolution of the Indian mutual fund industry in the year 1963. The primary objective at that time was to attract the small investors and it was made possible through the collective efforts of the Government of India and the Reserve Bank of India. Unit Trust of India enjoyed complete monopoly when it was established in the year 1963 by an act of Parliament. Now Mutual fund industry in India has 40 players. The number of public sector players has reduced from 11 to 5. The public sector has gradually receded into the background, passing on a large chunk of market share to private sector players.

The Association of Mutual fund in India (AMFI) is the industry body set up to facilitate the growth of the Indian mutual fund industry. It plays a pro-active role in identifying steps that need to be taken to protect investors and promote mutual fund sector. It is noteworthy that AMFI is not a self-regulatory organization (SRO) and its recommendations are not binding on the industry participants. By its very nature, AMFI has an advisor's or a counselor's role in the mutual fund industry. Its recommendations become mandatory if and only if the Securities and Exchange Board of India (SEBI) incorporates them into the regulatory frame work it stipulates for mutual funds.

The global meltdown had various repercussions, ranging from a galloping inflation and slowdown in industrial production to an uncertain political environment, leading to the equity and debt markets being weathered down. The volatility in markets and the uncertainties in global and local political environment led to dent in the capital market performance, challenging fund houses to deliver consistently, irrespective of the unfolding adverse situations. The mutual fund industry was actually able to buck the trend and show an increase in asset under management. On the positive note, the financial turmoil has helped highlight the benefits of investing in mutual funds vis-a-vis directly investing in stocks.

In this background, this article analyzes the history and development of the mutual fund industry in India.

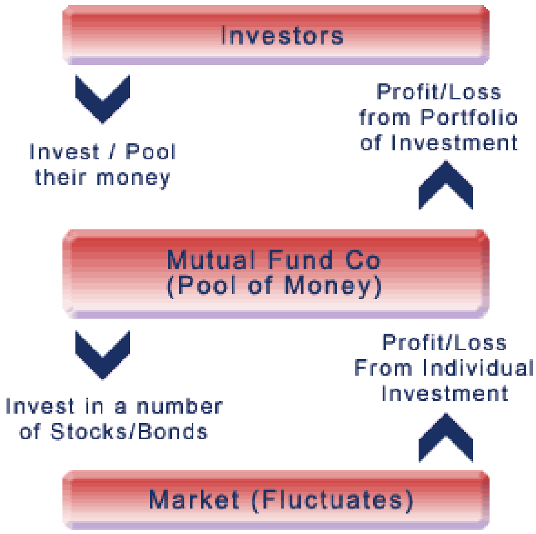
Introduction

A mutual fund is just the connecting bridge or a financial intermediary that allows group of investors to pool their money together with a predetermined investment objective. The mutual fund will have a fund manager who is responsible for investing the gathered money into specific securities (Stocks or bonds) when you invest in a mutual fund, you are buying units or portion of the mutual fund and thus on investing becomes a shareholder or a unit holder of the fund.

Mutual funds are considered as one of the best available investments as compared to others. They are very cost efficient and also easy to invest in. Thus by pooling money together in a mutual fund, investors can purchase stocks or bonds with much lower trading cost than if they tried to do it at their own. But the biggest advantage to mutual fund is diversification, by minimizing risk and maximizing return.

Thus a mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

The flowchart describes broadly the working of a mutual fund.



Advantages of Mutual Funds

1. Professional Management

Active portfolio management requires not only sound investment sense, but also considerable time and skill. By investing in mutual fund, an investor does not have to track the prospects and potential of the companies in the mutual fund portfolio. This is already being done by skilled research professional appointed by the mutual fund houses, professionals whose job it is to continuously research and monitor these companies.

2. Diversification

For an investor the mutual fund is the nuclear weapon to fight against risk. It simply means that one must spread their investment across different securities stock, bonds, money market instruments, real estate, fixed deposits etc. and different sectors auto textile, information technology etc. This kind of a diversification may add to the stability of return. For Example: During one period of time equities might underperform but bonds and money market instruments might to well enough to offset the effect of a slump in the equity market similarly the information technology sector might be fairly poor but the auto and textile sector might do well and may protect the investor's principle investment as well as meet ones return objectives.

3. Low Entry Level

An investor can invest in mutual funds depending upon the investment objective of the scheme. An investor can buy in to a portfolio of equities, which would otherwise be extremely expensive.

4. Liquidity

Mutual funds offer liquidity while investing. In case of an open-ended fund, it is completely liquid and can be redeemed at their Net Asset Value (NAV) related price on any working day.

5. Transparency

An investor will always have access to up-to-date information on the value of their investment in additional to the complete portfolio of investments, the proportion allocated to different assets and the fund manager's investment strategy. All mutual funds are registered with SEBI and they function within the provisions of strict regulations designed to protect the interest of investors. The operations of mutual funds are regularly monitored by SEBI.

6. Variety

Mutual funds offer a variety of schemes. This variety is beneficial in two ways. First, it offers different types of schemes to investors with different needs and risk appetites, secondly, it offers an opportunity to an investor to invest sums across a variety of schemes, both debt and equity. For Example: An investor can invest his money in a growth fund equity scheme and income fund debt scheme depending on his risk appetite and thus create a balanced portfolio easily.

7. Regulations

Securities Exchange Board of India (SEBI) the mutual funds regulators has clearly defined rules, which govern mutual funds. These rules relates to the formations, administration and management of mutual funds and also prescribe disclosure and accounting requirements such a high level of regulation seeks to protect the interest of investors.

Disadvantages of Mutual Fund

1. No Guarantees

No investment is risk free. If the entire stock market declines in value, the value of mutual fund shares will go down as well, no matter how balanced the portfolio. Investors encounter fewer risks when they invest in mutual funds than when they buy and sell stocks on their own. However, anyone who invests through a mutual fund runs the risk of losing money.

2. Fees And Commissions

All funds charge administrative fees to cover their day-to-day expenses. Some funds also charge sales commissions or “loads” to compensate brokers, financial consultants, or financial planners.

3. Taxes

During a typical year, most actively managed mutual funds sell anywhere from 20 to 70 percent of the securities in their portfolios. If the fund makes a profit on its sales, the investor will pay taxes on the income received.

4. Management Risk

When one invests in a mutual fund, one has to depend on the fund’s manager to make the right decisions regarding the fund’s portfolio. If the manager does not perform as well as one had hoped, one might not make as much money on their investment as one expected.

Structure of the Mutual Fund Industry in India

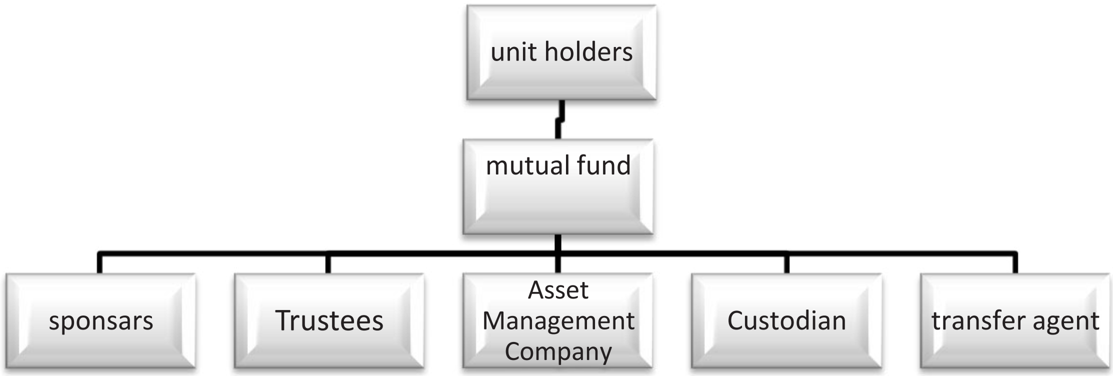
Mutual fund industry in India has 40 players. The number of public sector players has reduced from 11 to 5. The public sector has gradually receded into the background, passing on a large chunk of market share to private sector players.

The Association of Mutual fund in India (AMFI) is the industry body set up to facilitate the growth of the Indian mutual fund industry. It plays a pro-active role in identifying steps that need to be taken to protect investors and promote mutual fund sector. It is noteworthy that AMFI is not a Self-Regulatory Organization (SRO) and its recommendations are not binding on the industry participants. Its recommendations become mandatory if and only if the Securities and Exchange Board of India (SEBI) incorporates them into the regulatory frame work it stipulates for mutual funds.

The Indian Mutual Fund Industry follows the following structure:

1. Sponsors

They are the individuals who think of starting a mutual fund. The sponsor approach SEBI, the market regulator and also the regulator for mutual funds. Not everyone can start a mutual fund. SEBI will grant a permission to start a mutual



fund only to a person of integrity, with significant experience in the financial sector and a certain minimum net worth. These are just some of the factors that comes into play.

Trustees

Once SEBI is satisfied with the credentials and eligibility of the proposed sponsors, the sponsors then establish a trust under the Indian Trust Act 1882. The Trust has no legal identity in India and thus cannot enter into contract. Hence the trustees are the individuals authorized to act on behalf of trust. Contracts are entered into the name of trustees once the trust is created, it is registered with SEBI, after which point, this trust is known as Mutual Fund.

1. Asset Management Company(AMC)

The trustees appoint the AMC, which is established as a legal entity to manage the investors (Unit Holders) money. In return for this, the AMC is paid a fee for the service provided. This fee is to be borne by the investors and is deducted from the money collected from them. The AMC has to be approved by SEBI and functions under the supervision of its BOD, and also under the direction of the trustees and regulatory framework established by SEBI. It is an AMC which in the name of trust, that floats new schemes and manages these schemes by buying and selling securities.

2. Custodian

The Custodian maintains the custody of securities in which the scheme invests. It also keeps a tab on corporate actions such as rights, bonus and dividends declared by the companies in which the fund has invested. The custodian is appointed by the Board of Trustee. The Custodian also participates in a clearing and settlement system through approved depository companies on behalf of MFs, in case of dematerialized securities.

3. Transfer agent

Registrar and transfer agents maintain the investors (unit holders) records, reducing the burden on the AMCs. So in the diagram, one can see the sponsor, the trustees, the AMC, the mutual fund, its transfer agents and the custodian, and last but not the least the unit holders. All of these industry participants function within the regulations laid down by the SEBI.

History of Mutual Fund Industry

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India at the initiative of the Government of India and Reserve Bank of India. The history of mutual funds in India can be broadly divided into four distinct phases.

First Phase – 1964-87

Unit Trust of India (UTI) was established on 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the regulatory and administrative control of the Reserve Bank of India. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had Rs.6, 700 crores of assets under management.

Second Phase – 1987-1993 (Entry of Public Sector Funds)

The year 1987 marked the entry of non-UTI, public sector mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first non- UTI Mutual Fund established in June 1987 followed by Can bank Mutual Fund (Dec 1987), Punjab National Bank Mutual Fund (Aug 1989), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 1992). LIC established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990. At the end of 1993, the mutual fund industry had assets under management of Rs.47, 004 crores.

Third Phase – 1993-2003 (Entry of Private Sector Funds)

With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993.

The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996. The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1, 21,805 crores. The Unit Trust of India with Rs.44, 541 crores of assets under management was way ahead of other mutual funds.

Fourth Phase – since February 2003

During February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs.29, 835 crores (as at the end of January 2003), representing broadly, the assets of US 64 scheme, assured return and certain other schemes. The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations.

The second is the UTI Mutual Fund, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs.76, 000 crores of assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.

The industry has also witnessed several mergers and acquisitions recently, examples of which are acquisition of schemes of Alliance Mutual Fund by Birla Sun Life, Sun F&C Mutual Fund and PNB Mutual Fund by Principal Mutual Fund. Simultaneously, more international mutual fund players have entered India like Fidelity, Franklin Templeton Mutual Fund etc. There were 29 funds as at the end of March 2006. This is a continuing phase of growth of the industry through consolidation and entry of new international and private sector players.

Schemes

The AMC offers various (schemes/funds), which are structured in a manner to benefit and suit the requirement of investors. Every scheme has a portfolio statement, revenue account and balance sheet.

Basic	Type of funds/schemes					
	1	**2**	**3**	**4**	**5**	**6**
Tenor	Open ended	Close Ended	-	-	-	-
Asset class	Equity	Debt/Income	Hybrid	Real Estate	-	-
Investment Philosophy	Diversified Equity	Sector	Index Funds	Exchange Traded Funds (ETFs)	Fund of Funds (FOF)	Fixed Maturity Plan (FMPs)
Geographic Regions	Country/ Regions	OFF shares	-	-	-	-

Tenor:

Tenor refers to the time mutual funds can be classified on the bases of time as under;

1. Open Ended Funds

These funds are available for subscription throughout the year. These funds do not have a fixed maturity period. Investors have the flexibility to buy or sell any part of their investment at any time, at the prevailing price (Net Asset Value – NAV) at that time.

2. Close Ended Funds

These funds are open for subscription only during a specified period with a fixed corpus, when the period terminates, investors can redeem their units at the prevailing NAV.

Assets Classes

1. Equity Funds :

These funds invest in shares. These funds may invest money in growth stocks, momentum stocks, value stocks or income stocks depending on the investment objective of the fund.

2. Debt Funds or Income Funds :

These funds invest money in bonds and money market instruments. These funds may invest into long-term and/or short-term maturity bonds.

3. Hybrid Funds

These funds invest in a mix of both equity and debt. In order to retain their equity status for tax purposes they generally invest at least 65% of their assets in equities and roughly 35% in debt instruments, falling which they will be classified as debt oriented schemes and be taxed accordingly.

4. Real Asset Funds

These funds invest in physical assets such as gold, silver, oil, commodities and real estate.

Investment Philosophy

1. Diversified Equity Fund

   These funds diversify the equity component of their Asset under Management (AUM), across various sectors. Such funds avoid investing more of their assets towards a particular sector such as Gas and oil, construction etc. they use the diversification strategy to reduce the overall portfolio risk.

2. Sector Funds

   These funds invest predominantly in a specific sector. For instance, a banking fund will invest only in banking stock. Generally, such funds invest 65% of their total assets in a respective sector.

3. Index Fund

   These funds seek to have a position which replicates the index, say BSE Sensex or NSE Nifty. They maintain an investment portfolio that replicates the composition of the chosen index, thus following a passive style of investing.

4. Exchange Traded Funds

   These funds are open ended funds which are traded on the exchange (BSE/NSE). These funds are benchmarked against the stock exchange index. For example: funds traded on the NSE are benchmarked against the Nifty. In exchange traded funds (since they are traded on exchange) the price keeps on changing during the trading hours of the exchange.

- Fund of Funds (FOFS)

  These funds invest their money in other funds of the same mutual fund house or other mutual fund houses. They are not allowed to invest in any other FOF and they are not entitled to invest their assets other than in mutual fund schemes/fund requires liquidity to meet its redemption requirements, as disclosed in the offer document of the FIF schemes.

- Fixed Maturity Plan (FMP)

  These funds are basically income/debt schemes like bonds, debentures and money market instruments. They give a fixed return over a period of time. FMPs are similar to close ended schemes which are open only for a fixed period of time during the initial offer. However, unlike close ended schemes where your money is locked for a particular period, FMPs give you an option to exit. Remember though, that this is subject to an exit load as per the funds regulations, FMPs, if listed on the exchange, provides the investor an opportunity to liquidate the units at the prevailing price on the exchange.

Geographic Region

- Country or Region Fund:

  These funds invest in securities(equity and/ debt) of a specific country or region with an underlying belief that the chosen country or region is expected to deliver superior performance, which in turn will be favorable for the securities of that country. The returns on country fund are affected not only by the performance of the market where they are invested, but also by changes in the currency exchange rate.

- Off Shore Fund

  These funds mobilize money from investors for the purpose of investment within as well as outside their home country.

Conclusion

The global meltdown had various repercussions, ranging from a galloping inflation and slowdown in industrial production to an uncertain political environment, leading to the equity and debt markets being weathered down. The volatility in markets and the uncertainties in global and local political environment have led to a dent in the capital market performance, challenging fund houses to deliver consistently, irrespective of the unfolding adverse situations. The mutual fund industry was actually able to buck the trend and show an increase in asset under management. On the positive note, the financial turmoil has helped highlight the benefits of investing in mutual funds vis-a-vis directly investing in stocks.

References

1. Gupta,Ambika Mutual Funds in India, Anmol Publications, New Delhi
2. Sadhak.H, "Mutual Funds in India; marketing Strategies and Investment practices", Sage Publications, New Delhi
3. www.bseindia.com
4. www.hdfcfund.com
5. www.moneycontrol.com
6. www.mutualfund.com
7. www.nseindia.com

4 Industrial Development in Karnataka-Past, Present and Future

*Dr S. G. Hundekar

**Dr N. M. Makandar

*Professor & Dean, Dept. of Studies in Commerce & Research,Karnataka University,Dharwad

** Associate Professor of Commerce, Anjuman Arts, Sci. & Commerce College, Dharwad

Abstract

India's rise in recent years is a most prominent development in the world economy. India has re-emerged as one of the fastest growing economies in the world. India's growth particularly in the manufacturing and services sectors has boosted the sentiments, both within country and abroad. This article traces the industrial development in Karnataka by analyzing the past present and future growth of the industrial sector.

Introduction:

Industrialization is considered as a central dynamic force around the world for the development of an economy. During the last few decades Indian economy, which was in a resilient mode has shown moderately encouraging performance on industrial front. However, different studies indicate that still the overall industrial development is lacking efficiency and productivity. India has made considerable economic progress since its Independence. Most noticeable are the expansion and diversification of production both in industry and agriculture. New technologies were introduced in many industries. Industrial investment took place in a large variety of new industries. With an upsurge in investment and robust macroeconomic fundamentals, the future outlook for India is distinctly upbeat. According to many commentators, India could unleash its full potentials, provided it improves the infrastructure facilities, which are at present not sufficient to meet the growing demand of the economy. Failing to improve the country's infrastructure will slow down India's growth process. Therefore, Indian government's first priority is rising to the challenge of maintaining and managing high growth through investment in industries and also to earn more foreign exchange through more export.

Significance of study

There have been a number of causes behind growth of Indian economy in last couple of years. A number of market reforms have been instituted by Indian government and there has been significant amount of foreign direct investment made in India. Much of this amount has been invested into several businesses including knowledge process outsourcing industries. India's foreign exchange reserves have gone up in last few years. Real estate sector as well as information technology industries of India have taken off. Capital markets of India are doing pretty well too. All these factors have contributed to growth of Indian economy.

Economic policy in post-independence India was strongly influenced by the idea that there is high degree of correlation between the extent of industrialization in an economy and its economic development. A natural corollary was that developing countries should embark upon the path of industrialization in order to get rid of their economic problems. Industrialization ensures a rise in national income and standard of living by more extensive and intensive utilization of the productive resources, increasing the productivity of an economy, increasing gainful employment opportunities and making available basket of goods and services at large scale. Karnataka is considered a pioneer in the field of industrialization in India. The state has been in the forefront of industrial growth of our country since independence. In the era of economic liberalization since 1991, the state has been spearheading the growth of Indian industry, particularly in terms of high-technology industries such as Electrical and Electronics industries, Information & Communication Technology (ICT) industries, Biotechnology industries and more recently in terms of Nanotechnology industries. However, the industrial structure of Karnataka presents a blend of modern high-tech capital goods and knowledge intensive industries on the one hand and traditional consumer goods industries on the other. Given this, this article throws light on the industrial growth of Karnataka in 2010-11 as well as the industrial policy initiatives taken by the government, among others.

Trends in Industrial Production

India has witnessed the development of a strong and diversified industrial base since independence. The growth of industrial sector has opened a lot of opportunities for people aiming at increasing the avenues for employment, decreasing the social and economic disparities and achievement of self-reliance. However, there is a long way to go to ensure that these objectives are met fully. Yet, the growth of industrial sector has ensured organizations a platform where competitive forces decide the fate of organizations. Market forces like competition, customer, suppliers etc. have forced organizations to remain competitive or otherwise perish. As a result of which organizations are increasingly undertaking endeavors to cut costs and improve profitability to contribute to industrial growth. The industrial sector of Karnataka can be broadly classified into organized and unorganized. The growth of organized industrial sector is measured by means of Index of Industrial Production (IIP) and industrial statistics from Annual Survey of Industries (ASI).Both are compiled and published by the Central Statistical Organization (CSO), Ministry of Statistics and Program Implementation, Government of India. The IIP (Quarterly/Annual) is also compiled by the Directorate of Economics and Statistics. It is an abstract number, the magnitude of which represents the status of production in the industrial sector for a given period of time as compared to a reference (base) period of time. The current reference (base) year for IIP is 1999-2000. IIP is compiled and published on a quarterly basis. The scope of IIP is confined to mining, manufacturing and electricity sub-sectors of organized industrial sector. Therefore, IIP has been one of the key lead indicators of industrial growth on a current basis.

Karnataka is one amongst the industrially developed states in the country. The State has been focusing on development of industries, trade and service sectors. In order to make the State more attractive and investor friendly, investment promotion policies and programmes have been aimed at more inclusive industrial development, comprehensive HRD programmes, special attention towards development of sector specific zones, backward taluks. The current Industrial Policy 2009-20 of the Government of Karnataka is a reflection of these broad aims for promotion of industrial investment and development in the State through various fiscal and financial incentives, concessions and exemptions, such as, capital investment subsidy, exemption of electricity duty on captive power generation, exemption of stamp duty & reduction of registration charges, waiver of conversion fee (on lands converted for industrial use), acquisition and allotment of land through KIADB, subsidy for setting up of Effluent Treatment Plants (ETPs), entry tax & special entry tax concessions, technology up gradation, industrial infrastructure development/common infrastructure/facilities in notified industrial clusters, agriculture produce processing industries – exemption of APMC cess, incentives for Export Oriented Enterprises under medium, small and micro enterprise, large and mega projects, interest free loan on VAT for large and mega projects, anchor unit subsidy, special incentives for enterprises coming up in low HDI districts only for large and mega projects, interest subsidy for micro manufacturing enterprises, exemption from electricity duty for micro and small manufacturing enterprises and refund of cost incurred for preparation of project reports .

Review of Literature

Literature survey was done to explore area of research already made in the relevant field so that it lays a foundation of knowledge already available in the field. This would help to identify the possible gaps where research is needed and will permit the present study in hypothesizing links. Therefore this part of the study deals with the studies already conducted by different research followers. The somewhat hesitant mid 1980s liberalization has not come under much scrutiny. **Chand and Sen (2002)** find significant increase in total factor productivity growth. **Basant (2000)** provides an analytical narrative of corporate responses to the reforms of 1991. Multinational Enterprises (MNEs) offered significant competition to domestic incumbents, engaging in mergers and acquisitions to enter Indian markets. In response, domestic firms were vigorous in attempts to restructure and consolidate in chosen areas. **Patibandla (2002),** in turn, argues that domestic firms clearly needed to improve organizational and technical efficiency to survive, while MNEs needed to invest in building local distribution networks. **Chandra and Sastry (1998)** report the results of a survey that found firms making significant attempts to upgrade manufacturing capability. More firms came to rely on imported technology, and a larger number of firms embarked on export based growth paths. **Ghemawat and Kennedy (1998)** examine the market structure impact of sudden and simultaneous liberalization in Poland along many fronts - the "big bang" of 1 January, 1990, including foreign trade, FDI, prices, and regulations relating to entry, exit and factor markets.. They highlight the disequilibrium dynamics: the need to note distortions in pre-shock structure and the lags in adjustment to new equilibrium after the reforms.

Objectives of the study

There is no denying the fact that industrialization is of utmost importance to the developing economies like ours for solving the problems of economic backwardness. To achieve meaningful industrial development in the state, different governments right from the beginning have taken various initiatives from time to time. The question lies in how far these initiatives have succeeded in enabling the state to achieve the desired economic transformation on the lines of industrialized economies. This article attempts to answer this question by analyzing the industrial growth and development achieved by the state so far and to examine the pattern of the investment & export growth in Karnataka from an historical perspective and to identify the various challenges faced by the sector. Required data has been collected from economic survey of Karnataka.

The specific objectives of the study are:

1. To Review the Index of Industrial Production in Karnataka,
2. To study and analyse the Investment Flows into Karnataka and
3. To study and analyse the pattern of Exports from Karnataka.

Database and Methodology

The present study is based on the secondary sources of data which has been collected through the published source viz. Economic Survey of India and as well from various journals, periodicals, news papers, magazines and from different web sites.

Data Analysis and Interpretation

Investment is the creation of capital. It is an important determinant of national and State level economic growth. Consequently, promotion of domestic investment and attraction of foreign investment have occupied key elements of India's national and regional growth policies.

Following parameters have been identified to study and analyze the Investment and Export trends in Karnataka state.

1. Index of Industrial Production of Karnataka.
2. Selected Key indicators of Registered Factories: Karnataka & All-India
3. Important Indicators per Factory
4. Projects Approved by State Level Single Window Clearance Committee
5. Projects Approved by State High Level Clearance Committee
6. Foreign Collaborations in Karnataka
7. Export Performance of Karnataka State

Table-1

Index of Industrial Production of Karnataka Base Year: 1999-2000

Sector	Weight	2007-08	2008-09	2009-10
Mining	41.3609	224.60 (17.81)	241.22 (7.40)	332.76 (37.95)
Manufacturing	785.7083	158.71 (7.76)	167.45 (5.51)	181.63 (8.47)
Electricity	172.9308	146.22 (6.23)	146.33 (0.08)	169.43 (15.78)
General Index	1000.000	158.98 (7.35)	166.85 (4.72)	185.77 (11.34)

Source: Economic Survey of Karnataka 2010-11

A perusal of Table-1 reveals that the general Index of Industrial Production (IIP) of Karnataka covering mining, manufacturing and electricity sectors for 2009-10 stood at 185.77 (with base 1999-2000 =1000). The overall organized industrial sector of Karnataka registered an impressive double-digit growth of 11.34% in 2009-10 compared to the earlier two years: 7.35% in 2007-08 and 4.72% in 2008-09. Within the organized industry, mining sector registered the highest growth of 37.95% followed by electricity (15.78%) and manufacturing (8.47%). All the three sectors of organized industry have registered a higher growth in 2009-10 compared to 2007-08 and 2008-09. Further, though the mining sector has registered a very high growth of 37.95%, it accounts for a meager 4.1% weight in IIP whereas electricity sector with a weight of 17.3% grew by almost 16% and the manufacturing sector grew by just 8.47% but accounts for the highest weight of about 78.6%. Therefore, the overall industrial growth of the three sectors is moderated at 11.34% for 2009-10.

Table-2

Selected Key indicators of Registered Factories: Karnataka & All-India

Particular	2006-07			2007-08		
	Karnataka	**India**	**% Share**	**Karnataka**	**India**	**% Share**
Industries(No)	7,602	1,44,710	5.25	8,089	1,46,406	5.53
Fixed Capital	49,754	7,15,092	6.96	59,967	8,44,995	7.10
Working Capital	9,284	2,82,238	3.29	12,392	3,17,345	3.90
Total Output	1,62,746	24,07,658	6.76	1,84,258	27,72,656	6.65
Total Input	1,26,864	19,48,332	6.51	1,44,720	22,25,509	6.50
Gross Value Added	35,882	4,59,326	7.81	39,537	5,47,147	7.23
Net Value Added	31,295	3,94,871	7.93	34,658	4,75,928	7.28
Profits	19,770	2,40,570	8.22	21,079	2,91,913	7.22

Source: Economic Survey of Karnataka 2010-11

Table-2 reveals that Karnataka accounted for 5.53% of the total registered factories in 2007-08 in the country. The contribution of registered factories of Karnataka stood at 7.10% of total fixed capital, 6.65% of total output, and more than 7% of Gross Value Added in the same year. The share of Karnataka in total registered factories and total investment (fixed capital as well as working capital) has gone up in 2007-08 compared to 2006-07. However, the relative contribution of Karnataka's registered factories to industrial performance (of All-India) in terms of total output, gross and net value added and profits has declined marginally during the same period.

Table-3 gives an idea of important indicator per factory for the year 2006-07 and 2007-08. Karnataka compares favorably with All-India in terms of all the indicators – per factory - investment, employment, output and gross value added. Though registered factories of Karnataka, on an average, are more capital intensive than that of All-India, they are at the same time, more employment intensive and generated more value added as well as output.

Table-3

Important Indicators per Factory

Indicator	Units	2006-07		2007-08	
		Karnataka	India	Karnataka	India
Investment in Fixed Capital	Rs. Lakh	654.50	494.20	741.30	577.20
Employment	No's	93	54	89	56
Value of Output	Rs. Lakh	2140.80	1663.80	2277.90	1893.80
Gross Value Added	Rs. Lakh	472	317.40	488	373.70

Source: Economic Survey of Karnataka 2010-11

Table-4

Projects Approved by State Level Single Window Clearance Committee

Year	Approved Projects	Investment (Rs. Crores)	Employment (In lakh)
2000-01	292	4557.88	138204
2001-02	103	2042.92	46007
2002-03	95	1832.97	32072
2003-04	164	3893.47	111405
2004-05	202	4527.76	109028
2005-06	297	6786.57	292309
2006-07	881	11923.65	731750
2007-08	728	10309.92	349665
2008-09	310	5181.63	135623
2009-10	363	7836.74	116839
2010-11 (Up to Dec 2010)	378	6087.37	102606
Total	3813	64967.88	2165508

Source: Economic Survey of Karnataka 2010-11, Karnataka Udyog Mitra,Bangalore

Table-5

Projects Approved by State High Level Clearance Committee

Year	No. of Projects	Investment (Rs. Crores)	Employment (In lakh)
2000-01	88	38345.82	109863
2001-02	21	5975.40	30702
2002-03	07	1130.82	9302
2003-04	26	10263.61	99613
2004-05	29	31718.05	130642
2005-06	55	43993.19	588259
2006-07	65	90255.84	772966
2007-08	108	160522.82	1996504
2008-09	50	105266.20	410842
2009-10	110	288548.57	28434
2010-11 (Up to Dec 2010)	130	146566.89	462896
Total	689	922587.21	4896223

Source: Economic Survey of Karnataka 2010-11, Karnataka Udyog Mitra,Bangalore

Table-4 and Table-5 reveals that, for the current year, up to December 2010, the State Level Single Window Clearance Committee (SLSWCC) has approved 378 projects with an investment of Rs.6087.37 crores, generating employment potential of 1.03 lakhs. Further the State High Level Clearance Committee (SHLCC) has cleared 130 projects with an investment of Rs.146566.89 crores, generating employment potential of 4.63 lakhs persons

Table-6

Foreign Collaborations in Karnataka

Sl No	Particulars	2008-09	2009-10
1	No.of Cases	194	179
2	FDI involved	9143	4852

Source:Economic Survey of Karnataka 2010-11,Karnataka Udyog Mitra, Bangalore.

Table 7

Export Performance of Karnataka State

Sl.No.	Commodity	Value of Exports (Rs. in crores at current prices)		
		2007-08	**2008-09**	**2009-10**
1	Electronics, Computer Software & BT	69517.5	82153	90734.6
2	Readymade Garments	4125	5395	5125
3	Petroleum& Petroleum Products	11232	11642	110414
4	Engineering Products	8301	6185.99	4386.57
5	Iron Ore & Minerals (incl. Granite)	10197	7274.77	4692.97
6	Silk Products	91212	896.87	701.56
7	Coffee Products	1307.6	1579.05	1423.1
8	Basic Chemicals, Pharma and Cosmetics	2069.76	2530.64	2760.91
9	Agriculture and Processed Food Products	415.51	712.34	662.57
10	Gem and Jewellery	9749	10892.7	17409.3
11	Cashew and Cashew Kernals	527.05	638.48	644.18
12	Handicrafts	428.36	42.93	257.27
13	Leather Products	201.28	213.9	193.97
14	Chemicals and Allied Products	399.28	456.87	311.25
15	Marine Products	153.46	236.21	412.27
16	Plastic Goods	215.25	265.77	327.09
17	Spices	245.15	479.25	381.73
18	Wool & Woollen Products	147.59	153.25	144.39
19	Miscellaneous and Others	2559.52	2120.39	1261.29
	Total	**122703**	**134255**	**142871.41**
	Karnataka's share in all India exports	15	12.77	13.33
Karnataka's degree of openness to export trade (%)		45.3	44.3	42.55
India's degree of openness to export trade (%)		18.01	20.11	18.51

Source: Visveswarayya Industrial Trade Centre, Government of Karnataka, A perusal of Table-6 states that the Foreign Direct Investments (FDI) inflows to Karnataka stood 3rd in India after Maharashtra and Gujarat. Karnataka continues to be a favorite destination for foreign direct investment (FDI) in the country. State attracted Rs. 9143 crores, during 2008-09 and further attracted Rs.4852 crores during 2009-10.

Economic Survey of Karnataka 2010-11,

Table-7 reveals that the Karnataka's contribution to total exports of India has varied between 13 percent and 15 percent. Further, Karnataka's share in India's total exports of information and communication technology products has remained higher than 25 percent since 2005-06. Higher export performance is an important determinant of increasing degree of openness to export trade. Degree of openness is measured by the ratio of value of exports to GDP at national level and by the ratio of value of exports to GSDP at State level. Karnataka's degree of openness to export trade has been about 44 percent during 2007-08 to 2009-10. This is remarkably higher than at all India level (about 19 percent). Increasing degree of openness to trade is an indicator of economic globalization. From this viewpoint, levels of Karnataka's economic globalization have been higher than at all India level. Karnataka's exports amounted to about Rs.142871.41 crores which constituted about 13.3 percent of the country's exports. Karnataka enjoys a unique position in India in exports of Electronics and Computer Software. In 2009-10, the exports of Electronics and Computer Software from the State accounted for as much as 40 percent of the India's total exports. Other commodities from the State accounted for 6 percent of the exports at all India level.

Conclusion

India is an emerging economy which has witnessed unprecedented levels of economic expansion, alongside China, Russia, Mexico and Brazil. India is a cost effective and labor intensive economy, and has benefited immensely from outsourcing of work from developed countries, and has a strong manufacturing and export oriented industrial framework. The key global trends that are changing the global competitive context and therefore the possibilities for developing countries include: increasing speed in the creation and dissemination of knowledge; trade liberalization, globalization, and physical disintegration of production; increased importance of integrated value chains; increased role of MNCs in production and distribution and changing elements of competition. The increased importance of new technology can be seen in the increasing variety of goods and services produced. This can be appreciated in the increasing importance of manufactured products and services in trade. The challenge for developing countries is therefore to determine how best to be open to international competition while at the same time nurturing the development of their own production capabilities. If they liberalize too early, they run the risk of having their domestic industries

As per India economic review, Indian economy has been among one of leading performers in global economic scenario. However, there have been a couple of problems like inflation that have offset progress of Indian economy in recent times. Karnataka state has been experiencing high growth rates in recent decades in the GSDP. Karnataka is one of India's fast growing State's with a vast and diversified base. Apart from nurturing the globally recognized Silicon Valley of India-Bangalore-the State has emerged as a reputed investment destination for investors worldwide. In the Report of the World Bank on, 'Investment Climate across 16 states Karnataka has been ranked No.1 in investment climate. The State was the first to bring the industrial facilitation act to investors. Karnataka has a single window which acts as a one stop shop for investments in the State.

References

1. Amir, A. D.(1996) "The business opportunity of the next century: India" in The Mid–Atlantic Journal of Business, (December 1996).
2. Basant, R. (2000). Corporate Response to Economic Reforms, Economic and Political Weekly, March 4, pp. 813-22.
3. Basant, R. and Chandra, P. (2002). Building Technological Capabilities in a Liberalising Developing Economy: Firm Strategies and Public Policy, Economics of Innovation and New Technology, 11(4-5), pp. 399-421.
4. Bhardwaj, R.N. and R.Chadha (1991) "Sources of Growth and Inter-Industry Linkages.
5. Bourguignon and Boris Pleskovic (ed), "Annual World Bank Conference on Development Economics: Accelerating Development", Oxford University Press and World Bank.
6. Chenery, H. B. (1960). "Pattern of Industrial Growth", American Economic Review.
7. Chenery, H. B., S. Robinson and M. Syrquin (1986) Industrialization and Growth: A Comparative Study (World Bank Research Publication), Oxford University Press.
8. De Long, B., 2003, "India Since Independence: An Analytic Growth Narrative," in D. Rodrik (ed.) InSearch of Prosperity: Analytic Narratives on Economic Growth, (New Jersey: Princeton University Press).
9. Economic survey of Karnataka 2010-11, Economies, Vol. XXXVII-2, June, p. 162-96.
10. Ghemawat, P. and Kennedy, R. (1998). Competitive Shocks and Industrial Structure: The Case of Polish Manufacturing, International Journal of Industrial Organization, 17(6), pp. 847-67.
11. Javalgi, R. G. & V. S.Talluri (1996) "The emerging role of India in international business" in Business Horizons, (Sept/Oct 1996).
12. Mohan, Rakesh (2004), "Infrastructure Development in India: Emerging Challenges" in Francois
13. Patibandla, M. (2002). Policy Reforms, and Evolution of Market Structure in an Emerging Economy, Journal of Development Studies, 38(3) pp. 95-118. a. September, 50: 624-54.
14. Srivastava, V., (1996). Liberalization, Productivity and Competition, Delhi: Oxford University Press.
15. Virmani, Arvind (2004), "India's Economic Growth: From Socialist Rate of Growth to Bharatiya Rate of Growth", Working Paper 122, ICRIER.
16. Zakaria, Abdul Rashid & Elyas Elameer Ahmed, (1999). "Sources of Industrial Growth".
17. www.kar.nic.in
18. www.worldbank.org

5 A Brief History and Development of Banking in India and its Future

*** Prof. Narasimha Prakash**

*Associate Professor, Dept. of Management Studies, Acharya Bangalore B-School, Lingadheeranahalli, Off Magadi Road, Bangalore- 560 091.

Abstract

An efficient banking system is of paramount importance in the development of any economy. In India, it has evolved in an organized way over the last two centuries. The growth is more pronounced after India's Independence and especially after nationalization of some large banks. There has been a significant growth and transformation since 1990s contributed by the liberalization and banking sector reforms. This has helped the banks in India to stand in good stead in the face of the recent crisis in the financial and banking systems around the world. The RBI needs to be given all the credit for steering the banking system with a tight grip. While risk management is occupying a centre stage, banks are also competing for growth and sustenance of their business. This article is an attempt to walk through the history of Banking in India and also try and gauge the likely shape of things to come in the next few years.

Origin of Banking in India

William Shakespeare's Merchant of Venice takes us back to 14th century, depicting the art of money lending when Shylock lent money to Bassanio on the guarantee of Antonio's pound of flesh – effectively Antonio's death in case Bassanio fails to repay the money borrowed and if Antonio cannot fulfil his obligation as a guarantor.

It is said that by Shakespeare's time, (1564-1616) the Jews had been providing commercial credit in Venice, for nearly a century. They did their business in front of a building once known as Banco Rosso, sitting behind their tables – their tavule on their benches, their banci. The words "broke" and "bankrupt" also had their origin from the words "banca" and "rota" meaning a bank which is out of business or literally a broken bench.

The origin of Banking in India can be traced back to the Vedic ages. It is believed that money lending started even before Manu, the great Hindu Jurist who devoted a section of his work to deposits and lending and laid down rules relating to rates of interest. Modern banking in India commenced during the later part of the 17th century. The traditional money lenders were the only dominant force prior to this period who were engaged in money lending and financing of trade.

The lone surviving bank which has seen more than 200 years of its existence in India is the State Bank of India which started its operations in 1806 as Bank of Calcutta which later became Bank of Bengal. This was the first ever joint stock bank in the country. Around the time two other presidency banks were started through a charter of the East India Company in the western and southern parts of the country viz. Bank of Bombay (1840) and Bank of Madras (1843). All these three banks were merged together in 1921 to form Imperial Bank of India which after India's independence became State Bank India.

The seven associate banks of State Bank of India which were started by the princely states were nationalised during the period 1959-60 and made as subsidiaries of State Bank of India.

During the later part of the 18th century and in 19th century, a number of banks were set up across the country by private groups and many of them did not survive for too long. One of the long surviving commercial bank is Allahabad Bank which commenced its operations in 1865. All those surviving banks are a witness to more than a century of economic and social transformation in the country.

Post-independence era

The RBI which until then was a private bank was nationalized in 1949 and became the Government Central Bank. The era of post independence saw the Government taking measures to play an important role in the economic development of the country. The Industrial Policy Resolution adopted by the government in 1948 envisaged a Mixed Economy, necessitating the government and the public sector playing a dominant role in creating the productive assets. The Government had to address many complex problems facing the country. The important ones which needed programmed solution were providing support to agricultural sector, start basic industries, build facilities for generating power, provide transport and communication and build an effective educational infrastructure. Thus came the 5 year plans to develop these focussed sectors of the economy.

As any economic developmental activity would necessarily involve active participation from banks and financial institutions, the Government had to face this handicap with most of the commercial banks in the hands of the private sector. These banks belonged to the industrial houses of Tata, Birla, Bangurs etc. or the community groups like the Chettiars, Vysyas, Brahmins, Nadars, and others and the flow of credit was selective and did not support the causes for which the government would have desired.

The natural course of action to gain control over management of private sector banks was nationalization of some of these banks. The first batch of 14 large commercial banks were nationalised in July 1969 and 6 more banks were nationlised in 1980. With the merger of New Bank of India with Punjab National Bank in 1980, there are now 19 banks continuing as government owned banks apart from the State Bank group.

Whether the objectives of nationalizing the large banks were achieved over the last 4 decades is a moot question and depends on one's perspective. The positive impact is the spread of bank branches into the semi urban and rural areas, credit delivery to priority sector, reduction of regional imbalances, generating employment, aiding commerce and industry and generally promoting economic and social welfare. However, are they measuring upto other private sector and foreign banks in terms of employee efficiency, technology upgradation, customer satisfaction, upkeep of branches, profitability, etc., ? The answer is perhaps in the negative.

Significant Regulations

The era of post-independence, saw a number of regulations brought about by the government with a view to control and regulate the activities of banks. As banks and financial institutions are the machinery required to promote economic development, several enactments were brought in and some significant ones are:

- The Banking Regulation Act of 1949 aimed at providing operating guidelines to banks in India.
- State Bank of India Act 1955 by which the bank was nationalised.
- The Deposit Insurance and Credit Guarantee Corporation Act 1961: A wholly owned corporation of the Reserve Bank of India to provide guarantee to depositors.

- Regional Rural Banks Act 1976 to establish RRBs.

Events leading upto liberalisation and banking reforms

The country has perennially been an export deficit country because of high dependence on imported oil. The situation had reached alarming proportions during 1991 with foreign exchange reserves depleting to a level of $ 1.2 billion just enough to take care of 2-3 weeks of essential imports (forex reserves at the end of Oct. 2011 was $320 billion). Added to this was the growing fiscal deficit which had scaled upto 13% of GDP during FY 1990-91. As the deficits had to be met by borrowing programme, there was no much leeway left as the government had already accumulated debt of 53% of GDP during FY1990-91 from a level of about 35% of GDP during FY 1980-81. With no further scope to borrow internally, the government had to look to external sources and IMF came to the rescue, but with riders. In May 1991, government had to ship out 67 tons of gold from its reserves as pledge for the loan of $ 2.2 billion, with 47 tons going to Bank of England and 20 tons to Union Bank of Switzerland. There was a public outcry given the sentimental value attached to gold. In November 2009, given the comfortable situation, India bought about 200 tons of gold from IMF valued at $ 6.7 billion.

Post 1991 crisis, a number of measures were initiated by the then Prime Minister Narasimha Rao and Finance Minister Manmohan Singh which included reforming the banking sector, being a major contributor to the economic development. The objectives of banking sector reforms were to bring about competition and enhance efficiency and productivity. A committee headed by Narasimham was appointed in 1991 to study the structure, organization, functions and procedures of the financial systems and to recommend improvements in their efficiency and productivity. The recommendations of the committee which was placed in the Parliament in November 1991 set the tone for bringing about much needed reforms in the banking sector.

Some of the noteworthy recommendations were (a) Greater autonomy for public sector banks by reducing the government stake to 33%, appointing professionals to the Boards of banks instead of political appointments, review of recruitment, training and remuneration policies to bring the best market practices. (b) Stronger banking system by creating a three tier structure of banks through establishment of three large banks with international presence, eight to ten national banks and large number of regional and local banks. Creation of large sized banks was set to be achieved by merger of banks. (c) Reduction and control of non-performing assets by phasing out priority sector lending, creation of Asset Reconstruction companies to take over the bad loans. (d) Capital adequacy ratios and provisioning requirements

Most of the recommendations were adapted leaving aside some like the dilution of government's ownership, appointment of directors etc.

The question to be answered is the extent of impact of these reforms According to Dr. Y.V Reddy, former Governor of RBI, there has been a major impact on the overall efficiency and stability of the banking system in India. The capital adequacy of banks in India is comparable at the international level. Also, there has been a remarkable improvement in the asset quality with reduction in percentage of gross NPAs to gross advances. The reform measures have also resulted in an improvement in the profitability of banks. Over the last few years the business per employee for public-sector banks has more than doubled.

Entry of new Private Sector Banks

The New Banks Licensing Policy in the early 1990s saw the Reserve Bank of India allowing new banks to be set up in the private sector. Licenses were given selectively with a minimum capital of Rs. 200 crores to start with. FDI was initially allowed upto 20% within the minimum participation of 40% equity to be brought in by the promoters. The New Generation Private Sector Banks as they are called brought in computerized and swanky branches from the day one of their operations. These new banks were licensed to bring about competition in the banking system to improve productivity and efficiency. It has helped in setting up world class banks like HDFC Bank, ICICI Bank and Axis Bank (earlier UTI Bank) in terms of technology and products, bringing an element of customer delight in their services. Thanks to these new private sector banks, the retail banking segment saw a phenomenal growth in the last 2 decades. The reasons attributed to this are improved processes, reduced turnaround time (TAT), segmentation, customer specific products, and generally everything working around customer's aspirations.

This prompted other banks in both public and private sector to implement core banking system – a comprehensive computerization of their operations. The task of computerizing the operations of the existing banks proved to be a daunting task and this is always the case when you have to migrate from a totally manual set up to a fully computerized environment. This has caught up with even co-operative banks and today one would find many of them operating on a fully computerized platform.

While the objectives of licensing new private banks were to a great extent achieved, one also witnessed some amount of shakeout and consolidation of banks in the private sector in a very short period of time. Some of the new generation banks had to be taken over by other banks like The Times Bank was taken over by HDFC Bank. Bank of Punjab was merged with Centurion Bank to create Centurion Bank of Punjab which was eventually taken over by HDFC Bank. Global Trust Bank which was the first new generation private sector bank to start operations in 1994 had to be forcibly merged with Oriental Bank of Commerce in 2004 for their mis-management. Only those banks which played by the rules of the game survived and banks with too aggressive growth plans but with minimal internal controls and risk management systems failed to stay put.

The entry of new generation private banks has indirectly helped the otherwise sleepy public sector banks to wake up and take notice. To a great extent the public sector banks have put their houses in order since the last decade by streamlining their operations. It is also witnessed that migrating to a computerized set up had resulted in excess staff and banks had to freeze fresh recruitments of staff for some time. There is still a lot to catch up by the public sector banks in terms of revamping their branches to match with the private sector banks, improve staff efficiency and bring about customer focus and many more virtues of the private sector banks.

The computerization of banking operations and the phenomenal growth in the usage of internet has brought about significant changes the way customers operate their bank accounts. There is no need to wait in long queue to withdraw money, get a new cheque book, to order for a demand draft, for stop payment of cheques etc to name a few. Bank branches have only become marketing hubs with many of the back office functions relocated to a central place which caters to the entire bank. Customers are now encouraged to use ATMs, Net banking and mobile banking which brings a lot of relief to the bank branches in terms of that many customers not crowding at the branch counters.

Emergence of Universal Banking

Every bank would like to offer a one stop solution to their customers' banking and investment needs essentially becoming a Financial Supermarket. The development was to some extent prompted by the transformation of two of the DFIs

– the ICICI Bank and the IDBI Bank into commercial banks. The line of demarcation between term lending institutions and commercial banks was quite evident. However, considering the resource constraint and financial institutions' inability to tap deposits from the public, they had to look for a solution which resulted in converting themselves into commercial banks. Now one cannot miss noticing banks promoting several other products as an intermediary like mutual funds of not only those offered by their own associates by all others as well, life and general insurance, depository services, etc.,

What is in store?

It is difficult to do a crystal ball gazing into the future of banking and financial system in India for the next decade, but here are some thoughts on the way things may move keeping the continuity of actions given the current scenario in India and the picture presented by the global environment.

Risk Management

Indian banking system has successfully weathered several turmoil's in the international banking and financial system in the past. Though Indian banks have adopted Basel norms on the Risk Management Systems propounded and developed by the international banks, it is the RBI and the banks in India seem to have implemented them more effectively and gaining from its benefits. The question lies whether the Indian banks are better placed in terms of risk management? The answer is definitely in the affirmative when compared to the self inflicted damage by the banks in US and Europe. It is worth recalling a dialogue between Eddie (the English guy) and Bill (an African) while playing a game of cricket in the movie "Love thy Neighbor", when the Eddie argues "we invented it" to which Bill replies "but we play better".

There have been several instances of the international banks getting badly affected to the extent of their existence being threatened due to the rogue trading in supposedly exotic derivative products. Huge positions taken by their traders have hit banks like Societe Generale in 2008, UBS in Sept. 2011, not to mention the liquidation of the Barings Bank back in 1995. Fortunately, banks in India have never got into such situations, though in recent times, banks like Global Trust Bank had to be forcibly merged with Oriental Bank of Commerce to save the bank from falling apart and thus risking the depositor's moneys.

At least two recent instances of turmoil in banking and financial system merit special mention - the South East Asian crisis and the sub-prime crisis in the US.

There has been a tremendous negative impact on the banking and financial system in United States and Europe arising out of the sub-prime crisis in 2008. According to Dr. Y.V. Reddy, former governor of RBI "…..the source of the problem was perhaps not the macro-global imbalances, but the significant mispricing of risks in the financial system. Easy monetary policy in major financial centres, the globalization of liquidity flows, widespread use of highly complex structured debt instruments and the inadequacy of banking supervision in coping with financial innovations contributed to the severity of the crisis…" The malady of the system is very well brought out here and we should appreciate the approach of the Reserve Bank of India in management of the affairs of banking and financial system in the country.

The Indian Banking system will continue to be closely regulated by the RBI though with some minor relaxations like deregulating the interest rates on savings bank accounts which happened recently and possibly allowing interest to be paid on current accounts as well with some riders. As far as the buffet of offerings on the lending side is concerned, the country has to be content with the present available products. With the financial crisis in 2007-08 stemming from the exotic derivative products offered by banks in the developed countries especially in the US, the lessons learnt are good enough to keep a check on aping such products in India. The country may not witness such products in the near term and the RBI will also in all its wisdom may not permit such offerings by banks operating in India.

Capital Account Convertibility

Given the financial crisis experienced in South East Asian countries (in particular Thailand, Malaysia, Indonesia, South Korea and Philippines) in 1997 when their local currencies were battered and the continuing financial instability around the globe since the sub-prime episode and the crisis in PIIGS (Portugal, Italy, Ireland, Greece and Spain) countries in the Euro Zone, the RBI may still hold on to the view that the time is yet to come for a free float of the Indian Rupee. On the hind sight, this stand has perhaps insulated us from the happenings in the financial sectors in the US and Euro Zone.

How does this impact the banking sector is to look at in simple terms. Whatever is the policy decision on convertibility coming out of the RBI or the GOI; it is the banks who will be involved in its implementation. As the commercial banks are the channel through which the foreign currency flows, either in converting rupees into foreign currency or vice versa, the banks will have additional responsibility to shoulder as and when the full convertibility comes into effect.

Consolidation

Country can expect some consolidation in the Indian banking sector by merger of the remaining five associate banks of SBI with the parent to help SBI become one of the large players in the international field. The already merged banks (State Bank of Saurashtra and State Bank of Indore) were unlisted and small in size and therefore did not pose much difficulty except for internal reorganization. Merger of other associate banks may also not pose much difficulty in terms of either culture of the employees or continuity of business for the merged banks, but for the procedural issues since 3 of the remaining banks like SBM, SBT, SBBJ are listed companies. One of the significant facilitator in the merger of associate banks with the parent is that all the associate banks work on the same technology platform. In fact this is one of the burning issues if the entities to be merged work on different IT platforms.

Unlike the State Bank group, merger of other nationalised banks will be a complex task for the authorities. Apart from taking the employee unions into confidence, the merger of cultures will also be a daunting task. There is always be a problem of "big brother attitude" in merger exercise and will create the skirmishes in cultural integration. In spite of a few decades after nationalisation, the cultures of each of the nationalised banks are different. To minimize this impact on mergers, a merger of banks located in each of the different regions will be attempted like a north based bank getting merged with another north based bank and a south based bank getting merged with another from the same region.

One can expect some actions in the private sector as well, as some of the old private sector banks are candidates for takeover by new private sector banks who can get the reach and spread quickly. Such takeovers have already happened in the recent past like the United Western Bank was taken over by IDBI Bank, Bank of Madura and Bank of Rajasthan were taken over by ICICI Bank.

In the days to come, technology will continue to play a far more important role in customer service. The country has already witnessed several offerings in the internet and mobile banking space by the banks, especially the private sector banks for improved customer convenience. Banks in India can now boast of matching all the facilities which are available to the customers abroad. It will be a matter of time that many of the services available on the internet and mobile phones are taken to the remote locations and therefore penetration will be the issue on hand for the banks.

Apart from this, banks which are lagging behind in technology especially some of the nationalised banks and old private sector banks will be left behind if they do not catch up very quickly with the front line banks. It is not uncommon to find people having accounts with the new generation banks and other tech savvy nationalised banks purely for the purpose of the ease of banking using their net banking facilities though they may continue to have accounts with other traditional banks.

Technology Play

One of the important factors in the growth of banking is adapting to technology. The taste of convenience banking through ATMs, Internet banking, and Mobile banking has led to a spurt in the number of banking transactions. The latest entrant in the technology play in banking is the Mobile banking. The mobile handset manufacturers say that internet will happen on mobiles and their plan is to push sales with underlying internet usage.

The country is the world's second largest mobile phone users with over 865 million mobile connections as at the end of August 2011. Further 5 – 7 million new mobile users are being added every month.

As far as the internet is concerned, India ranks 3rd in the world after China and US with an estimated 121 million users by the end of December 2011. The addition to the number of users is about 5-7 million every month.

These figures should give an idea of the size of alternate channels of banking that would be available though all the mobile and internet users may not end up using the banking services through these medium. However, these two mediums will get a big push from the banks as even a fraction of users is good enough. This will not only reduce the paper work drastically, but will reduce other cost of operations to a great extent though it would involve initial investment in technology.

Green Banking

With a view to reduce the use of paper at the branches, some banks are promoting the concept of Green Banking in a big way. It provides the Customers with a simple, secure and quick way of executing daily Banking transactions. With only the ATM cum Debit Card and PIN, a customer can operate his Bank Account at the branch. It is a counter manned by a Teller where a Transaction Processing Device (TPD), similar to a PoS machine, is attached to the terminal. Customer swipes the Shopping cum Debit Card, selects a particular transaction and enters the amount and the PIN. Post authentication, the transaction gets transferred to the Teller's terminal that enters denominations of cash to be paid / received, then pays / receives cash and completes the transaction. The Customer completes the transactions with no paperwork. This facility has been existing in many other countries and Banks which are yet to adopt this will implement it in a big way .

Sharing of ATM infrastructure

In the initial stages of introducing ATMs some of the private sector banks were looking for a return from their ATM network – an acronym ROTI meaning Return on Technology Invested. However, soon they realized that ATMs are more of an extension of service what a branch does. It is not only to enhance the customer convenience, but offers many hidden benefits to the banks themselves.

A few years back, we could not have thought of banks sharing their ATM network with other banks, but now it has now become a necessity as it has been established that setting up their own network of ATMs by each of the banks will be a costly proposition. The capital required for such an infrastructure could well be used for other purposes like propping up the capital adequacy requirement. Though individual banks will continue to expand their own network of ATMs, one may not witness the same speed at which they were opened a few years back.

Banks to lead the financial inclusion

The Government of India's effort to bring financial inclusion and avoid too many layers in reaching the subsidies to the poor and weaker sections will offer a great opportunity for the banks to extend their services to the rural segment of the country. While this may require branch expansion in the interiors of the country, whether it will be a cost effective exercise for banks will be a difficult question to answer. One can expect nationalised banks to take up this task being a national and social requirement with limited participation from the private sector banks.

Retail banking will continue to grow

The growth of retail banking in emerging market is said to be on account of advance in IT infrastructure, financial sector reforms, younger population, increase in affordability, change in lifestyles etc. Retail banking refers to the banks dealing with individuals which include savings bank accounts and current accounts on the liabilities side and housing loans, auto loans, personal loans, education loans, consumer durable loans, debit and credit cards on the assets side. With the deregulation of interest payable on savings bank accounts, one could witness the competition heating-up for sharing of this vital source of cheap funds for the banks. On the assets side, with the corporate sector not showing any significant growth opportunities and with a very crucial advantage of spreading the risk available in retail lending, banks will spare no effort to grow this segment.

Conclusion

Banking sector has witnessed a tremendous amount of transformation in the last 2 decades, much more than what one would have seen over the several decades before that. Needless to mention that a well developed banking system is as much essential for the growth of the economy as of its citizens. With one of the best central banks in the world, the RBI has been steering the banking system with a well measured approach of deregulation, but at the same time tightening the risk management measures, so that the Indian banking system does not face similar crisis situation as the rest of the world has witnessed at some point of time or the other. RBI is currently looking at the possibilities of allowing more new banks in the private sector, which is only expected to intensify the competition further to the delight of the customers.

References

1. Ferguson Niall, The Ascent of Money, Penguin Books, 2009.

2. RBI's discussion paper on "Entry of New Banks in the Private Sector" August 2010.

3. Reddy, Y. V. India and the Global Financial Crisis, Orient Black Swan, 2009.

4. Sir William Jones, Institutes of Hindu Law (1796) - Digitalized by Google.

5. www.icicibank.com

6. www.investopedia.com

7. www.rbi.org.in

8. www.statebankofindia.com

9. www.trai.com

6 THE HISTORY OF THE INSURANCE SECTOR IN INDIA

*** Hetal S Ved**

*MBA III Semester, Jyoti Nivas (Autonomous) College, Koramangala, Bangalore

Abstract

History of the Insurance Sector in India – Three Phases of Development – Pre Nationalization, Nationalization and Post Nationalization Phases – Pre Nationalization Phase – dominated by foreign insurance companies which implemented unfair practices on the Indian national for their benefit – Nationalization Phase – witnessed a surge in the number of Indian insurance companies which implemented fair practices for the Indian national – also witnessed the implementation of the IRDA – to regulate the insurance segment in the country – post nationalization – saw the privatization of the Indian insurance segment while limiting the Foreign Direct Investment to 26% - today the Indian Insurance segment is one of the most competitive and prospective segments of the Indian economy

HISTORY OF THE INSURANCE SECTOR

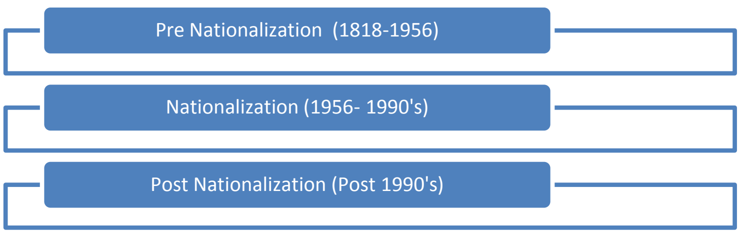
THE BEGINNING

The story of insurance is probably as old as the story of mankind. The same instinct that prompts modern businessmen today to secure themselves against loss and disaster existed in primitive men also. They too sought to avert the evil consequences of fire and flood and loss of life and were willing to make some sort of sacrifice in order to achieve security. Though the concept of insurance is largely a development of the recent past, particularly after the industrial era – past few centuries – yet its beginnings date back almost 6000 years.

The concept of insurance in India is a very traditional one and has a deep rooted history. Insurance in various forms has been mentioned in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmashastra) and Kautilya (Arthashastra). This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. The fundamental basis of the historical reference to insurance in these ancient Indian texts is the same i.e. pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. The early references to Insurance in these texts have reference to marine trade loans and carriers' contracts.

INSURANCE IN THE INDIAN HISTORY

The history of the insurance sector in India can be broadly bifurcated into three eras:



PRE NATIONALIZATION STAGE (1818-1956)

Life Insurance in its modern form came to India from England in the year 1818. Oriental Life Insurance Company started by Anita Bhavsar and

Europeans in Calcutta was the first life insurance company on Indian Soil to cater to the needs of European community. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. All the insurance companies established during that period were brought up with the purpose of looking after the needs of European community and Indian natives were not being insured by these companies. However, later with the efforts of eminent people like Babu Muttylal Seal, foreign life insurance companies started insuring Indian lives. But Indian lives were being treated as sub-standard lives and heavy extra premiums were being charged on them.

In 1870, Indians took a sigh of relief when Bombay Mutual Life Assurance Society, the first Indian insurance company covered Indian lives at normal rates. Bombay Mutual Life Assurance Society heralded the birth of first Indian life insurance company in the year 1870, and covered Indian lives at normal rates. Starting as Indian enterprise with highly patriotic motives, insurance companies came into existence to carry the message of insurance and social security through insurance to various sectors of society.

Bharat Insurance Company (1896) was also one of such companies inspired by nationalism. 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

The first 150 years of the insurance industry in India were marked mostly by turbulent economic conditions. The era witnessed, India's First War of Independence, the adverse effects of the World War I and World War II on the Indian Economy, and in between them the period of worldwide economic crises triggered by the Great depression. The first half of the 20th century also saw a heightened struggle for India's independence. The aggregate effect of these events led to a high rate of bankruptcies and liquidation of life insurance companies in India. This had adversely affected the faith of the general public in the utility of obtaining life cover.

At the dawn of the twentieth century, many insurance companies were founded. The Swadeshi movement of 1905-1907 gave rise to more insurance companies. The United India in Madras, National Indian and National Insurance in Calcutta and the Co-operative Assurance at Lahore were established in 1906. In 1907, Hindustan Co-operative Insurance Company took its birth in one of the rooms of the Jorasanko, house of the great poet Rabindranath Tagore, in Calcutta. The Indian Mercantile, General Assurance and Swadeshi Life (later Bombay Life) were some of the companies established during the same period.

Prior to 1912 India had no legislation to regulate insurance business. In the year 1912, the Life Insurance Companies Act, and the Provident Fund Act were passed. The Life Insurance Companies Act, 1912 made it necessary that the premium rate tables and periodical valuations of companies should be certified by an Actuary. But the Act discriminated between foreign and Indian companies on many accounts, putting the Indian companies at a disadvantage. In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies.

The first two decades of the twentieth century saw lot of growth in insurance business. From 44 companies with total business-in-force as Rs.22.44 crore, it rose to 176 companies with total business-in-force as Rs.298 crore in 1938. During the mushrooming of insurance companies, many financially unsound concerns were also floated which failed miserably. The Insurance Act 1938 was the first legislation governing not only life insurance but also non-life insurance to provide strict state control over insurance business.

NATIONALIZATION STAGE: (1956 – 1990'S)

The demand for nationalization of life insurance industry was made repeatedly in the past because there were a number of foreign and Indian insurers operating in the Indian market. Regulations were passed to regulate the Indian insurers but not the foreign companies providing insurance services in India. The demand for the same gathered momentum in 1944 when a bill to amend the Life Insurance Act 1938 was introduced in the Legislative Assembly. However, it was much later on the 19th of January, 1956, that life insurance in India was nationalized. About 154 Indian insurance companies, 16 non-Indian companies and 75 provident were operating in India at the time of nationalization. The prior legislations became insignificant and single firm- the Life Insurance Corporation (LIC) of India became the sole provider. Thus the industry was transformed from a competitive one to a highly regulated monopoly.

Nationalization was accomplished in two stages; initially the management of the companies was taken over by means of an Ordinance, and later, the ownership too by means of a comprehensive bill. The Parliament of India passed the Life Insurance Corporation Act on the 19th of June 1956, and the Life Insurance Corporation of India was created on 1st of September, 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost among financially backward people so that their risks were covered in the event of death.

The reasons behind the nationalization decision included the Government's need to channel more resources towards national development programmes, to increase insurance market penetration through nationalization and to protect the interests of the policy holders from failures which were the result of mismanagement. It was also felt that the nationalization of this sector would lead to more effective mobilization of funds to enable capital to be allocated to development projects.

POST NATIONALIZATION STAGE: (1990'S ONWARDS)

The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector. The introduction of the policies pertaining to liberalization, privatization and globalization by Government of India in 1992 provided a much needed thrust for the industry. Following the introduction of the LPG policy, the Malhotra Committee for the conception of a more regulated and efficient insurance sector, was set up under the Chairmanship of Mr. R . N Malhotra- the former governor of the Reserve Bank of India. The genesis of opening up of the insurance sector to the private sector lies in the recommendation of this committee, which was to examine the industry on two core issues:

- Increasing search of the insurance industry
- Improving the customer service

The committee was of the opinion that the above objectives would be achieved if the insurance sector was privatized. The following are the basis on which the privatizing of the insurance sector is justified:-

HUGE MARKETS

The potential market estimated at 312 million people. The estimates suggested that only 25% insurable population had taken up the insurance policies. According to the national council for applied research 50 million people have the capacity to pay an annual premium of Rs. 10000, 100 million people have the potential to pay an annual premium of Rs.7000. Thus huge markets need to be tapped.

LOW PENETRATION RATIO

The penetration ratio in India is extremely low. The per capita insurance in India in 1999 was only $ 8 against $ 4800 in the Japan. The LIC & GIC further were only able to tap only 10% of the markets and the 90% were yet to be tapped.

CUSTOMIZATION

With a large potential of consumer base it is required that the products are tailor-made as per the requirements of the customers. This is possible only when the markets are competitive enough.

FUNDS FOR THE DEVELOPMENT OF THE COUNTRY

Insurance funds are a good source of long term funds in the economy. The untapped markets has the potential for providing the funds for the long term projects particularly infrastructure.

EMPLOYMENT GENERATION

There is a great potential of growth in the employment through the insurance and insurance related services.

GROWTH IN THE ECONOMY

The Indian economy has grown at the rate of 5.6% per annum in the 1990's and the gross domestic savings are around 25% and have the potential to grow up to 45%. Life insurance showed a growth of 12%. Thus we require more players in this sector.

On account of the above the insurance sector opened up and the following insurers registered with the IRDA

List Of Life Insurers Registered With The IRDA

- Life Insurance Corporation Of India
- HDFC Standard Life Insurance Company Limited
- Max New York Life Insurance Company Limited
- ICICI Prudential Life Insurance Company Limited
- Om Kotak Mahindra Life Insurance Company Limited
- Reliance Life Insurance Company Limited

FEATURES OF THE PRIVATIZATION SCHEME

Monopoly of the public sector companies in the insurance sector has ended. The life insurance and general insurance are opened up even to the private sector

The Act allows the foreign investors to invest upto 26% of the share capital of the insurance company.

The Act has given a statutory status to IRDA to set up in 1996 so as to regulate insurance business in India.The scheme gives powers to the central government to appoint a controller of insurance if IRDA is suspended due to certain reasons.

Minimum capital of any company doing insurance must be at least of Rs.100 crores and if the company is undertaking reinsurance business the share capital required is Rs. 200 crores.

Every insurance company will have to

provide for issuing life insurance and general insurance including the crop insurance to the rural population, economically weaker sections and the workers of the unorganized sector. If they fail to do the same, a fine of Rs. 25 lakhs is imposed and in extreme cases the license is also cancelled.

SIGNIFICANCE OF THE INSURANCE INDUSTRY IN THE CURRENT SCENARIO

The Insurance Industry in India happens to be a very big opportunity. Today it stands as a business growing at the rate of 15-20% annually. Together with banking services, it adds about 7% to the country's GDP. In spite of all this growth, the statistics of the penetration of the insurance in the country is very poor. Nearly 80% of Indian populations are without Life insurance cover and health insurance. This is an indicator that growth potential for the insurance sector is immense in India.

The insurance market have witnessed dynamic changes which includes presence of a fairly large number of insurers both life and non-life segment. Most of the private insurance companies have formed joint venture partnering well recognized foreign players across the globe.

There are now 29 insurance companies operating in the Indian market –

- 14 private life insurers,
- 9 private non-life insurers and
- 6 public sector companies.

The insurance industry has undergone a sea of change over the last four years since its opening up to the private players as well as the foreign investors. Since then, it has never looked back and today stands as the one of the most competitive and exploring industry in India. Some of the significant highlights of the industry are as follows:

- The introduction of private players in the industry has added value to the industry and made it one of the most competitive industries in the country today.
- The initiatives taken by the private players have given immense competition to the one time monopoly of LIC.
- The new players have improved the service quality of the insurance. As a result, the market share was distributed among the private players.
- The entry of the private players and the increased use of the new distribution techniques are in the limelight today.
- The use of advanced IT tools has further increased the scope of the industry in the longer run.

CONCLUSION

Evidently, the life insurance industry has today become a mainstay of any market economy since it offers plenty of scope for garnering large sums of money for long periods of time. A well-regulated life insurance industry which moves with the times by offering its customers tailor-made products to satisfy their financial needs is, therefore, essential if we desire to progress towards a worry-free future.

REFERENCES

1. www.financialmasala.com
2. www.insurancehistory.com
3. http://insurance.kotak.com
4. www.irda.gov.in
5. www.licindia.com
6. www.scribd.com
7. www.wikipedia.com

CASE STUDY

7 A FIRST GENERATION WOMEN ENTREPRENEUR FROM UNORGANIZED SECTOR

***Dr. Usha Devi.N**

*Associate professor, Dept. of Commerce, MLA First Grade College for Women, Bangalore, India

Abstract

The Author met Mrs. ASHWINI NAYAK, an entrepreneur from unorganized sector, in an International Conference and had an informal interaction with her. Discussion with the entrepreneur inspired the author that Mrs. Ashwini Nayak story can be a source of inspiration for many budding entrepreneurs. Therefore, selected the same for the study, where an effort is made to cram the real life experience of Mrs. Ashwini Nayak and how her personality reflects on the society.

'Empowering the women is a prerequisite for creating a good nation; when women are empowered, society with stability is assured. Empowerment of women is essential as their thoughts and their value systems lead to the development of a good family, good society and ultimately a good nation'

- DR.A.P.J. ABDUL KALAM

Former President of India

THEORETICAL BACKGROUND

Entrepreneurs play a significant role in the generation of employment opportunities and improvement of standard of living of the people. They also contribute for the growth, technological progress, import reduction and export promotion. They do not bother about obstructions and barriers, which they face in their day to day business life; instead they function like a well oiled machine and make every process in the business exciting and productive. Then who is this entrepreneur? Entrepreneur is a creative thinker, innovator, risk taker and self motivated individual, who create jobs not only for himself/herself but also generates jobs for many others. In the process, he/she solves problems, add values and seeks excellence.

It is a known fact that women constitute half the humanity. Women are in no way inferior to men. Participation of women in economic activity on par with men is, therefore, necessary for the development of mankind. This fact is supported by many experts. For instance, Swami Vivekananda, while commenting about women, said, 'as a bird cannot fly with one wing, no society can make progress unless its women join men in all activities. It has been rightly stated by Pandit Jawaharlal Nehru that, 'in order to awaken the people, it is the women, who should be awakened. Once she is on the move, the family moves, the village moves and the nation moves. Therefore, empowerment of women through the promotion of women entrepreneurship should become need of the hour in India. Mahatma Gandhiji always said that, 'in order to strengthen the women's empowerment, female literacy has to be promoted. It is very interesting to note that the Government supportive schemes resulted in the promotion of women entrepreneurship and the number of women entrepreneurs has grown over a period of time, especially in the 1990s and their contribution to the national economy is quite visible. Further, Women's entrepreneurship has been recognized during the last decade as an important untapped source of economic growth.

As women entrepreneurs are considered to be one of the most important inputs in the economic development of the country, an effort is made by the author to study the story of a successful woman entrepreneur, which can be used not only as a discussion material in management schools and other forums, but also many lessons can be learnt for shaping future managers.

THE CONCEPT OF WOMEN ENTREPRENEUSHIP

Women entrepreneurs may be defined as the woman or group of women, who initiates, organizes and operates a business enterprise. According to the Government of India, women entrepreneurship refers to an enterprise owned and controlled by a woman and having a minimum financial investment of 51 percent and offering at least 51 percent of employment generated in the enterprise to women.

OBJECTIVES OF THE STUDY

1. To study the demographic characteristics of an woman entrepreneur
2. To find the woman entrepreneur's professional profile
3. To explore the strategies adopted in her business

METHODOLOGY

Author met Mrs. ASHWINI NAYAK, an entrepreneur from unorganized sector, in an International Conference in 2007 and had an informal interaction with her. Discussion with the entrepreneur inspired the author that Mrs. Ashwini Nayak story can be a source of inspiration for many budding entrepreneurs. Therefore, selected the same for the study, where an effort is made to cram the real life experience of Mrs. Ashwini Nayak and how her personality reflects on the society.

FINDINGS

1. Demographic Characteristics

Mrs. Ashwini Nayak, forty five years old entrepreneur is a graduate and belongs to joint family with four dependents. Her family income was less than Rs.10000 per annum before becoming entrepreneur, but today her family income is Rs. 30 lakhs. She is a house wife and mother of two children.

She pursued gardening as a hobby. She used to pick some of the beautiful flowers from her garden and press them between pages of books to dry. Later she would arrange them systematically. Some of her friends and relatives found these very attractive and would place orders with her for dried flower decoration for their houses and offices. She started producing more and more dried flower designs and they were sold as fast as she could produce.

Very soon she could sense it as a great opportunity for her hobby to be converted into a business venture. She then made a firm decision to establish a dried flowers enterprise. She borrowed eighty rupees from her friends to start the business. In the beginning her customers were friends, neighbors and relatives.

She did her own research for finding out the plants and flowers, which are more suitable for dried flower decoration. She even consulted horticulture experts to learn the process of controlling the growth of fungus in flowers. She also participated in several sales exhibitions held by the government and women's' organizations. In five years time, she made these dried flower decoration so popular that it became status symbol. The turnover increased from Rs 6,196 in the first year to 30 lakhs in few years. For Mrs. Ashwini Nayak "setting high standards and practicing them, remaining focused and always willing to learn" was considered as need of the hour. It was this quality, which helped her to reach her destination.

Like any other women, she faced the problem of maintaining work-life balance, as she had to play dual role of business women and care taker of her family as well. She could not get loan easily from the bank, because she had no property in her name to use them as collateral security for obtaining funds from the bank. She was not aware of technological developments, subsidies and concessions in respect of loans / infrastructure facilities etc. that are available to them. She was also stressed in the initial stages of the business, which affected her health. In spite of facing many hurdles, Mrs. Aswini Nayak's optimistic attitude made her to convert her simple hobby i.e. gardening into a business. Mrs. Ashwini Nayak narrated the difficulties she faced in the initial days, when she started the business without hesitation. Author tried to find out whether she had any role models, who were her source of inspiration. She mentioned that her parents, teachers and husband had a great influence over her in imbibing some of the important human qualities.

2. Professional Profile

She started the business with the support of her husband, but today she has nine employees. When she started her business, no other entrepreneur was doing such type of business. But now many such units have started flourishing. In spite of the severe competition, she is confident of achieving success because of her continued practice to innovate designs, patterns and even market.

The following strategies, which she implemented in her business, helped her to convert her dream into reality:

- Customers complaints should be analyzed and reviewed every day and their problems should be attended immediately.
- Drive out fear, create an environment for innovation and personal development and instill in every employee a sense of pride in the work they do.
- Business should have one culture i.e. family culture.
- Organization's interest should be to retain long-term relationships with the customers, dealers and vendors.
- The stakeholders of the business should have one strategy i.e. uncompromising values at work.

3. Business strategies

She considers her creativity, business sensitivity, personalized attention and sense of service as factors that made a housewife and mother as an entrepreneur.

When she was asked whether she has any message for youngsters, she said, 'Woman should come out of their traditional occupation like garments –making, tailoring, food processing, handicrafts and parlors etc., and accept more challenging and economic activities' like Consultancy, Interior designing, Diagnostic laboratories, Catering services, Advertisement services, engineering goods, IT services etc. She also said that young women should be motivated into this field through audio visual media. Financial institutions should provide loans at concessional rates and Government subsidy can be increased to women entrepreneurs.

She strongly believed and conveyed that, 'Great leaders raise the aspirations of their followers, and they make people more confident, energetic and enthusiastic. She also said that the people, who are motivated by great leaders, dream big, make sacrifices and achieve miracles. Therefore, development of such great leaders through training and mentoring should become cry of the hour in our country. Further, With a view to transforming employment seekers into job generators, education system should prepare students right from college education to get oriented to setting up enterprises, which would provide them creativity, freedom and ability to generate wealth.

Mrs. Ashwini Nayak's opinion is that many women entrepreneurs in India are enthusiastic, hard working, ambitious, patient and devoted. Despite various good traits, they are facing several constraints in psychological factors (lack of self motivation, poor risk taking ability), constraints in social factors (lack of social contacts), constraints in technical factors (lack of project ideas, lack of process know how), constraints in economic factors (lack of financial support from family, lack of economic ownership and control) etc. Therefore, she suggests that government should design unique training programs for imparting entrepreneurial talent in Indian women on large scale. Apart from this, counseling should be provided to the women entrepreneurs and to her family members by the NGOs, psychologists, and managerial / technical experts.

She also expressed that the micro-credit plays an important role in the upliftment of women. But many women entrepreneurs are not aware of this scheme. Therefore, concerned authorities should take the responsibility of creating awareness about the different schemes available to them. Further, since majority of the women are ignorant of their legal rights, legal literacy classes should be organized to enhance their awareness. As marketing products is one of the main problems for women entrepreneurs, women co-operative societies can be started to procure the products from women entrepreneurs. This will help them in selling their products at a reasonable price.

Policies and programs tend to be "men streamed" and too often do not take into account the specific needs of women entrepreneurs and would-be women entrepreneurs. As a consequence, equal opportunity between men and women from the perspective of entrepreneurship is still not a reality in India says Mrs. Ashwini Nayak.

She also adds that in order to harness the potential of women entrepreneurs and for their continued growth and development, it is necessary to formulate appropriate strategies for stimulating, supporting and sustaining their efforts in this direction. Such a strategy needs to be in congruence with field realities, and should especially take cognizance of the problems women entrepreneurs face within the current system.

CONCLUSION

An innovative idea together with willingness to take risks has led Mrs. Ashwini Nayak to convert her simple hobby into an enterprise. Author recommends that Mrs. Ashwini Nayak should be honored business standard award for her outstanding performance and also conveys that youngsters should take inspiration from Mrs. Ashwini Nayak's business life and challenge themselves to fulfill the vision of the country i.e. making India an economic superpower by promoting entrepreneurship.

References

1. Bone J.E & Colbert. A, "Responses to leadership feedback, when does negative feedback motivate", Personnel Psychology (2005)
2. Bone J.E. & Judge T.A, "Management Style and Employee Motivation", Academy of Management Journal (2003)
3. Dr.V.L.Abraham, "Factors influencing and shaping women entrepreneurs" Women Era, 2004.
4. Maheswari B.L, "Training, Skill Development and Job Performance", ASCI Journal of Management, Vol ll, No.1 Sept.1981
5. Nielso.J, "Aspects of management concerned

to Basis Researchers: Describing and Measuring Management Abilities and Services", Report No.4, Management Research Committee, USA 1962.

6. Rao.T.V and Moulik T.K, "Identification and selection of Small Scale Entrepreneurs", IIM, Ahmadabad, 1979.

7. Richard.M.Steers & Lyman.W. Porter "Motivation of Work Behavior", Mc. Graw Hill, New York, 1999, pp 59-67.

8. Still L.U, "Glass Celling & Stickly floors: Barriers to the careers of women in the Australian Finance Industry", Human Rights and Equal Opportunity Commission (1997). No. 2, pp 107-112 (1986).

9. Vinod, A, "Entrepreneurial Development and Project Management", Calicut University Central Co-operative Stores Ltd, Calicut University, p43-97. (1996).

8 ANCIENT SCIENCES AND ARCHAEOLOGY, VOL. IV – ED.

Author: Dr. M. D. Sampath and Dr. Smt. N. Pankaja, 2011, pp 1-296, plates and figures.

*** Dr M. D. Sampath**

*Secretary, Ancient Sciences and Archaeological Society of India, Mysore

The volume on Ancient sciences and Archaeology recently brought out includes the paper presented on various aspects of Ancient Sciences and Archaeology in the year 2010. The papers have been brought out as a compendium for the benefit of researches. This volume aims at the interaction of the scholars on different issues and recent researches done in the field of Ancient Mathematics, Archaeology, Epigraphy, History, Economics, Ancient Medicine, Manuscriptology, Temple Architecture, Ancient Indian Engineering, Astronomy, Language, Literature and so on. Among the contributions made to this journal by reputed authors mention may be made of the scholars like Dr. T. Sathyamurthy, Dr. Priya Thakur, Dr. Anuradha K. Ranade, Dr, Mallinathpur, Dr. Raja Reddy, Dr. N. Kannan, Dr. N. Pankaja and Dr. Subrata Kumar Acharya.

The study made by Dr. T. Sathyamurthy on the subject "Unfolding the Ancient Indian Engineering marvel is a rich contribution in the sense, that for the first time a schematic cross section of the Vimana structure was taken for analysis. He has emphasized several aspects to create interest among the modern architects to focus their models on native techniques that resisted many natural calamities in the past.

Dr. Anuradha K. Ranade by using the epigraphic and literature data has drawn our attention to the regional culture especially of Maharashtra. She suggests that the evolution of Maharashtra as a socio-cultural unit is a long drawn process and inscriptions and literature from this region are of great value for the reconstruction of the state of Maharashtra.

In an endowment lecture delivered on Traditional Boat Building techniques by Dr. P. Jayakumar emphasized the fact that the traditional seafarers are still preferring to choose their own traditional techniques and one can notice their sailing without board engines and sails together in order to avoid unexpected failures in the mid-sea. The contribution of Dr. Priya Thakur on the study of the astronomical elements at the Vidhya Shankar temple at Shringeri draws our attention to the aspect of the orientation of this temple on an east-west axis and presently stands parallel to the flow of the Thungabhadra river flowing south of it. The architectural details like orientations and pillars were laid out to indicate dates that were in meaningful relations to those marked by horizon pictures.

Dr. Yogesh Mallinathpur has conducted an extensive survey of the sites in Hagari Basin which will be valuable to the archeologist who are indulged in the study of Megalithic culture of the region. This detail study of the period ranging from early ironage to the early historical period of the Hagari Basin. He has emphasized the scope for further research is very limited since most of the sites have been destroyed.

Inscriptions are valuable for the study of weights and measures that were used in the ancient and medieval periods. Smt. T. Shanthi has dealt with this subject elaborately and narrated the techniques that have been employed to measure the lands given to temples and plots assigned to the individuals etc. Even though the measuring rods seem to be used continuously yet there is a change in the measurement because of the fluctuation in the lands measured in the different areas. Dr. Raja Reddy's contribution on Ancient beads and coins to Chebrolu is a valuable addition to the numismatists and archeologists. Chebrolu site is an important site from the Satavahana period till the Vijayanagar period. Coins and beads furnish valuable data on the comprehensive history of the town.

Dr. N. Manoramma in her endowment lecture on Knight's Tour and Palindromic verses has brought out the features of unique Bandha that needs elaborations due to its peculiar usage and its demanding nature of the users artistic and accurate mathematical skills. She has analyzed the mathematical structure and the Algebra of Matrices. It is stated that the history of the Keladi period can very well be understood with the help of a rare manuscript called Gita Gowrivaram. Dr. G.V. Kallapura has brought out the importance of this Kavya which is preserved in the form of manuscript. Dr. N. Kannan has pointed out that the exorbitant greatness of the number "ONE" is explained enormously in a vivid and picturesque style by Swami Sri Vedanta Desika through the various ranges in contrast to the number "NINE" which may be presumed to have lower qualities in his paper on Mathematical Mountain Structure in Subhashita Nivi.

Dr. N. Pankaja and Smt. N. Leelavathi have drawn our attention as to how our Indian people from the ancient period knew about the Chitrakavyas and the introduction of the same by Acharya Dandan. All the Bandhas like Chaturanga turanga Bandha , Muraja Bandha, Ardhabhramaka or Sulikulam, Chakra Bandha are all written in 4 x 8 rectangle, one half of chess board. They have described the mathematical approach to Chitrakavyas namely Matrix theories, Magic diagrams, Cryptography, Graph theory, etc. Each poem is transformed into a Matrix. Given a poem p the different Bandhas can be viewed as transformations. Given a poem of m lines each having n letters, it is possible to get a matrix of the type mxn. This matrix is called the matrix of the poem indicated by (p). The matrices can be thought of as graph, whose vertices are located at mn positions of the matrices. Each Bandha give rise to directed edges resulting in a directed graph. Given a matrix A of type mxn, the various Bandhas transformations (BT) may give rise to semi-magic rectangles or squares. They have suggested in a detailed way with lot of illustrations, graphs, etc. about the uses of matrix and its various types of symmetries that were known to the Indian people from time immemorial.

This Journal is a valuable addition to the library and to the researchers in different faculties like Science, technology, history and commerce.

CALL FOR PAPERS

AMBER – ABBS Management Business and Entrepreneurship Review is a journal of Acharya Bangalore B-School, Bengaluru, India.

The theme of the forthcoming issue is "**Corporate Social Responsibility and Governance**". The journal is seeking submissions from academicians and scholars. The guidelines for submissions are attached. All submissions must be sent to editoramber@acharyabbs.ac.in. In addition, two hard copies of the submission must be mailed to the Editor. The submissions must be received before 6th Feb.2012. Submissions, if found eligible, will be put through a blind review process to be carried out by external reviewers.

Today, there is urgent need to sensitize corporate citizens, students, academicians and policy makers about the importance of CSR and Corporate Governance. More research needs to be done in this area. Our coming issue is an effort in that direction.

GUIDELINES FOR SUBMISSION

1. Your submission must be in MS Word doc or rich text format.
2. Name of the author, designation and affiliation, and contact e-mail must be placed on the first page
3. The second page must contain the abstract. Ensure that the abstract is not more than 150 words. Abstract should be in fully justified; italicized text. The abstract should elaborate research background and methodology.
4. The third page must contain the title and the body of the article must start here.
5. The body of the article must be center-justified and the entire article must be of font size 10 in Times New Roman font except for headings. The title must be boldfaced with 14 font size, in Title Case. Each of the subheadings must be of font size 12, boldfaced, and in Title case. Section headings of the subheadings can be of font size 10 and boldfaced in Title case.
6. The spacing between lines must be 1.5. There must be no tab for the first sentence of every paragraph.
7. All tables must be numbered and must be placed inside the body of text where relevant. The table headings must be placed above the table and be of font size 10 and boldfaced in Title case and centered. The source of the table data must be given at the bottom of the table in the same font and size as that of the body of the text.
8. All figures must be numbered and must be placed inside the body of text where relevant. The figure headings must be placed above the figure and be of font size 10 and boldfaced in Title case and centered. The source of the table data must be given at the bottom of the table in the same font and size as that of the body of the text.
9. Notes must be placed on the same page that the text to which it corresponds in the form of footnotes.
10. Annexure must be numbered and must follow immediately after the body of the text.
11. The body of text must contain references as follows: (Kamini, 2009) or (WTO, 2009) i.e. last name/surname of the author and year
12. All references have to be arranged in alphabetical order and must be numbered except those of Internet sources. The Internet sources must be placed after other references and must be separately numbered.
13. The references must be presented as follows:

For books, reports, manuscripts, and unpublished volumes:

Toffler, A. (1980), the Third Wave: The Classic Study of Tomorrow, Bantam Books, New York, pp. 195-207.

For journals and other periodicals:

Venkatesha, H. R. (2008), “Dealers’ Performance and Customers’ Preference in Passenger Car Marketing”, Vilakshan, Vol. 5, No. 6, pp. 222-235.

For Internet sources, web site addresses must be alphabetically arranged and numbered at the end of the reference section.

14. Authors have to submit two hard copies and one soft copy.

15. The hard copies have to be posted to:

The Editor,

AMBER,

Acharya Bangalore B-School,

#3, Lingadheeranahalli, Off Magadi Road,

Bengaluru 560 091.

Soft copy of the paper must be e-mailed to editoramber@acharyabbs.ac.in

LAST DATE OF SUBMISSION OF FULL PAPER: 6th February, 2012