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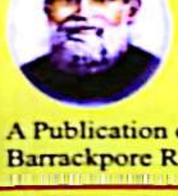

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Presentation of Financial Statements : A Critical Analysis of IAS 1

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ABSTRACT: The objective of financial statements is to provide understandable, reliable and relevant information about an entity that can be conveniently used for taking economic decisions. One set of information can be used conveniently if it is comparable with other set of information relating to other period for the same entity or other entities for the same period. For taking economic decisions a user needs to predict future cash flows, its timing and certainty. Information is relevant if it assists a user in so doing. For understanding the fundamentals of the objectives of financial statements one should duly consult the theoretical framework set out in the *Framework for the Preparation and Presentation of Financial Statements*. International Accounting Standard 1 (IAS 1) sets out requirements and guidelines for presentation of financial statements so that the objective of financial statements can be fulfilled. The present study is an endeavor to examine how far some of the requirements and guidelines of IAS 1 are consistent with the objective of financial statements. At the first part, the objectives of financial statements and some of the requirements and guidelines of IAS 1 are stated and discussed and their consistency is tested in a critical analysis at the latter part of this paper.

Key Words: *Comparability, Changes in Equity, Owner and Non-owner Changes is Equity, Other Comprehensive Income.*

1. INTRODUCTION

The ultimate products of the accounting system are the financial statements. The International Accounting Standards Board issued the revised International Accounting Standard 1 (IAS

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1) on Presentation of Financial Statement in 2007, effective from 1-1-2009. IAS 1 sets out the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. [1] The theoretical bases for such and other International Financial Reporting Standards (IFRSs) are contained in *Framework for the Preparation and Presentation of Financial Statements*. This paper is intended to present the main features of the IAS 1, to relate them with the fundamental principles of accounting and to judge the theoretical soundness of certain provisions of IAS 1. Accordingly, the article has been organized in the following order. After introduction in Section 1, Section 2 and Section 3 present the objectives and main features of IAS 1 and relate them with the fundamental principles of accounting. In Section 4, arguments are raised against certain provisions of the IAS 1. Along with that, proposal for certain broad directional changes are also made. [Note: The paper used four documents of IFRSs: the Framework, the Introduction of IAS 1, the IAS 1 and the Basis for Conclusions for IAS 1. The reference of Para number of IAS 1 is given in parenthesis. For Para number of Introduction to IAS 1, the number in parenthesis is prefixed by IN; for Para number of Basis for Conclusions for the IAS 1, it is prefixed by BC; for reference to Para number of the Framework, it is prefixed by F.]

2. THE OBJECTIVE OF FINANCIAL STATEMENTS

The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Information should be provided about an entity's: (9)

(a) assets;

(b) liabilities;

(c) equity;

(d) income and expenses, including gains and losses;

(e) contributions by and distributions to owners; and

(f) cash flows.

These information, along with other information in the notes, assist users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Regarding the quality of information The Framework stated that information should be relevant and reliable to the users. They should also meet the other requirements: understandability and comparability. The objective of IAS 1 *Presentation of Financial Statements* is to ensure **comparability** both with the entity's financial statements of previous periods and with the financial statements of other entities. (1) This attribute is supposed to ensure consistency and uniformity of reporting. IAS 1 requires the financial statements to make fair presentation. This is to ensure **reliability**. It presumes that an entity achieves a fair presentation by compliance with applicable IFRSs. (15-17) IFRSs are standards and interpretations adopted by the IASB.

They comprise : International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), International Financial Reporting Interpretations (IFRICs) or the former (Standard Interpretation Committees) SICs. (7)

A Complete set of financial statements comprises:

(a) a statement of financial position as at the end of the period;

(b) a statement of comprehensive income for the period;

(c) a statement of changes in equity for the period;

(d) a statement of cash flows for the period;

(e) notes, comprising a summary of significant accounting policies and other explanatory information;

Notes contain information in addition to that presented in (a), (b), (c) and (d) to provide narrative descriptions or desegregations of items presented in those statements and information about items that do not qualify for recognition in those statements (such as mineral reserves). (F 21), (7) and

(f) a statement of financial position as at the beginning of the earliest comparative period when applicable. (10)

3. THE MAIN FEATURES OF IAS 1

IAS 1 affects the presentation of owner changes in equity and of comprehensive income. (IN 5) The financial statements affected thereby are the statement of changes in equity and the statement of comprehensive income.

3.1. Statement of Changes in Equity

Equity is the residual interest in the assets of the entity after deducting all its liabilities. (F 49c) Owner changes in equity occur through contributions by or distributions to the owners. Non-owner changes in equity occur through comprehensive income. Thus the total changes in equity is the sum total of owner changes and non-owner changes. The statement of changes in equity shall show the carrying amount of equity at the beginning of the period, the owner changes, the total comprehensive income and the carrying amount at the end of the period. (106) IAS 1 requires owner changes in equity to be presented separately from non-owner changes in equity. An entity is not permitted to present **components** of comprehensive income (i.e. non-owner changes in equity) in the statement of changes in equity. The purpose is to provide better information by aggregating items with shared characteristics and separating items with different characteristics. (IN13) IAS 1 also requires dividends recognized as distributions to owners to be presented in the statement of changes in equity or in the notes (and not in the comprehensive income statement). (IN16) (107)

So far we have seen:

i) $E = A - L$

ii) $OE + OC + TCI = CE$

iii) $\Delta E = CE - OE = OC + TCI$

Where, E = Equity, A = Assets, L = Liabilities; OE = Opening Equity, OC = Owner change, TCI = Total Comprehensive Income, CE = Closing Equity; ΔE = Changes in Equity.

For a company which is not a holding company the summarized form of the statement of changes in equity is presented below :

Statement of Changes in Equity

Particulars	Share Capital	Retained Earnings	Other Comprehensive Income	Total Equity
Opening Balance	E_{11}	E_{21}	E_{31}	E_{41}
Owner Changes	I	D		ΔOC
Non-Owner Changes (Total comprehensive income)		P	OCI	ΔNOC
Closing Balance	E_{12}	E_{22}	E_{32}	E_{42}

Where, E_{11} = Share capital at the end of year 1; E_{21} = Retained Earnings at the end of year 1; E_{31} = Other Comprehensive Income at the end of year 1; E_{41} = Total Equity at the end of year 1; and E_{12} = Share capital at the end of year 2; E_{22} = Retained Earnings at the end of year 2; E_{32} = Other Comprehensive Income at the end of year 2; E_{42} = Total Equity at the end of year 2.

The equity part of the statement of financial position (balance sheet) is shown as below:

Statement of Financial Position includes...

	Year 2	Year 1
Share Capital	E_{12}	E_{11}
Retained Earnings	E_{22}	E_{21}
Other components of equity	E_{32}	E_{31}
Total Equity	E_{42}	E_{41}

3.2. Statement of Comprehensive Income

Now let us see what comprehensive income is. It is *profit* or loss plus *other comprehensive income*.

TCI = P + OCI where, P = profit or loss and OCI = other comprehensive income.

profit or loss is the total of income less expenses, excluding the components of other comprehensive income. *Other comprehesive income* comprises items of income and expense (including reclassification adjustments) that is not recognized in profit or loss as required or permitted by other IFRSs. (7)

The components of other comprehensive income include :

(a) Changes in revaluation surplus (see IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*) ;

(b) acturial gains and losses on defined benefit plans recognized in accordance with paragraph 93A of IAS 19 *Employee Benefits* ;

(c) gains and losses arising from translating the financial statements of a foreign operation (IAS 21 *The Effects of Changes in Foreign Exchange Rates*) ;

(d) gains and losses on remeasuring available-for-sale financial assets (IAS 39 *Financial Instruments : Recognition and Measurement*) ;

(e) the effective portion of gains and losses on hedging instruments in a cash flow hedge (IAS 39).

This other compreshensive income is, then, shown separately in the statement of changes in equity and shown as a separate line item in the equity part of the balance sheet as *other component of equity*.

An entity shall present all items of income and expense recognized in a period :

(a) in a single statement of comprehensive income, or

(b) in two statements : a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income). (81)

Reclassification adjustments are made to the other compreshensive income for the amounts reclassified to profit or loss in the current period that were recognized in other comprehensive income in the previous periods. For example, gains realized on the disposal of available-for-sale financial assets are included in profit or loss of the current period. These amounts may have been recognized in other comprehensive income as unrealized gains in previous periods. Those unrealized gains must be deducted from other comprehensive income in the period in which the realized gains are reclassified to profit or loss to avoid including them in total comprehensive income twice. (93)

An entity shall present an analysis of expenses recognoized in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant. (99) An entity classifying expenses by function shall dosclose additional information on the nature of expenses, including depreciation and amortization expense and employee benefits expense. (104) When items of income or expense are material, an entity shall disclose their nature and amount separately. (97)

An entity shall not present any items of income or expense as extraordinary items, in the statement of compreshensive income or the separate income statement (if presented), or in the notes. (87)

IAS 1 omits the requirement in the 1997 version to disclose the results of operating activities as a line in the income statement. 'Operating activities' are not defined in IAS 1, and the Board decided not to require disclosure of an undefined item. (BC 55)

4. CRITICAL ANALYSIS OF CERTAIN PROVISIONS OF IAS 1

The qualitative characteristics of financial reporting are often conflicting in nature ; for satisfying more relevance one may loose reliability and vice versa. The Framework stated that the relative importance of the characteristics in different cases is a matter of professional judgment. (F 24-45) Question may be raised whether relative importance of qualitative characteristics, so important for achieving the objectives of financial statements, should be left to subjective professional judgment.

IAS 1 sepatated profit or loss from other comprehensive income. IAS 1 BC (Basis for Conclusion) observed that *Framework* does not provide criteria for distinguishing the characteristics of items that should be included in profit or loss from those that should be excluded from profit or loss. It further stated that there are no clear principles or common characteristics that can be used to separate income and expenses into two parts : profit ot loss and other comprehensive income. (BC 51) It only stated that an entity shall recognize all items of income and expense in a period in profit or loss unless an IFRS requires or permits otherwise. (88) At the present form the statement of comprehensive income is still theoretically incomplete. IASB agreed to address the issue in the next stage of the project. (BC 54)

This paper is making a humble suggestion to develop a criterion for distinguishing between profit or loss item and other comprehensive item on the basis of stock and flow approach. Recognition of income occurs simultaneously with the recognition of increase in assets or decrease in liabilities. Recognition of expenses occurs simulatneously with the recognition of decrease in assets or increase in liabilities. (Framework 92, 94) We may coin this feature as integration of flow with stock. Based on the concept of integration of flow and stock i.e., income and wealth, one may develop a criterion for segregation of profit or loss from other comprehensive income. When income arises through change in value of wealth, it should be categorized as other comprehensive income. As value of wealth reflects the sum total of future income, duly discounted at appropriate rate, it is essentially not realized. On the other hand profit or loss arises through income and expense transactions which are incurred or realized and effected in change in wealth. The existing standards, however, have have gone to the contrary to this proposition. It may be recalled that unrealized profits of certain category of financial assets are recognized in profit or loss (IAS 39).

The Board decided that items treated as extraordinary result from the normal business risks faced by an entity and do not warrant presentation in a separate component of the income statement. (BC 63) However this resolution contradicts with one stated attribute of financial information that it should assist users of financial statements in prediciting the entity's future cash flows and, in particular, their timing and certainty. It appears that presentation of income mixed with extraordinary result looses the essential attribute of predictive ability.

5. CONCLUSION

With growing application of fair value accounting, particularly for financial assets including derivatives, the role of other comprehensive income is going to gain more and more importance in course of time. As per IAS 1 it is shown separately not only in the comprehensive income statement but also in the statement of changes in equity and in the equity section of the statement of financial position (balance sheet) as other component of equity. By emphasizing on the consistency of accounting, comparability of financial results and position over the years for the same firm is reasonably assured. But empowered by the managerial discretion on classifying assets in different manners, their valuation and consequent other comprehensive income may vary at such a degree that comparability among different firms is likely to become a far more difficult and complicated job. In financial statement analysis also, this other comprehensive income part requires added attention for interpreting information about the condition and performance of the firm. The present study dealt with certain theoretical issues regarding presentation of income and equity in context of the stated objectives of financial statements and inquired how far they are consistent with the fundamentals of the Framework. Although income, equity and value are theoretically integrated, in view of the rapidiy changing economic scenario, GAAP for their accounting and reporting faces a lot of practical problems. IAS 1 along with other IFRSs is definitely a positive endeavor to reduce the gap in the GAAP. Certain inconsistencies are indicated in the present study between the Framework, objectives and the provisions of the standard. The study feels that in context of the changes in the economic scenario the Framework is required to be revised thoroughly along with the commensurate on going changes in the standards.

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Role of NGOs in Development of Backward Districts in West Bengal – A Study

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ABSTRACT : According to the Planning Commission, the proportion of population below the poverty line in 1999-2000 in West Bengal was 31.85 per cent and this huge BPL population inevitably puts more pressure on basic infrastructure as well as on the provision of health and education services of the state. Voluntary agencies in West Bengal have a history of involvement in a wide range of social welfare and developmental work throughout the State which stretches back to the last century. In the present paper, an attempt has been made to assess the contribution of the NGOs towards development of the backward districts of the State, and to identify the thrust areas that require urgent attention from the government as well as NGOs. For this purpose, variance of utilization of funds for BPL sector by the NGOs belonging to the developed and underdeveloped districts of the state has been analysed.

Key words : *Variance ratio test, F-test, degrees of freedom, Primary Health Care Service, Total Sanitation Campaign, Equivalency Programme.*

1. INTRODUCTION

Since the early 1990s, there has been concentration of fiscal powers and reduced flow of resources to State Governments from the Centre, which have dramatically affected both the fiscal position and the ability to engage in productive expenditure of the State Government (West Bengal Human

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Development Report, 2004). Therefore, despite the fact that formally speaking the responsibility for several of the factors that affect human development (such as health and education) rests with the State Government, in reality the power to alter these conditions significantly is relatively limited (West Bengal Human Development Report, 2004). Despite some apparent successes in certain sectors, on the whole the process of global economic integration has done relatively little to improve the trend rate of GDP growth in the national economy beyond the levels achieved from the early 1980s, did not cause a dramatic improvement in the material conditions of most of the population, and generally added to the greater vulnerability and insecurity. The adverse macroeconomic processes included increasing inequalities of income; worsening trends in per capita food consumption and nutrition; deceleration of employment generation; a relative decline of manufacturing, especially in the small scale sector, and the stagnation or decline of manufacturing employment; and deterioration in the quality of employment (West Bengal Human Development Report, 2004). Here lies the importance of NGOs and their activities in the development process of the State. As the State cannot do everything, the NGOs should participate in poverty reduction process.

The non-governmental sector has a tradition of selectively working with the poor and has a tradition of *voluntarism* and *ethics* as a basis for its activities. In West Bengal also, the participation of NGOs in poverty alleviation and developmental activities is a widely accepted fact. Here the NGOs work at the cutting edge of development in the areas where mere survival often involves a fight against the enemies of extreme poverty, fundamental injustice and glaring exploitation.

With this backdrop, the present paper attempts to examine empirically the spending pattern of the NGOs for the people who live at the margins of the society in developed and underdeveloped regions of the state. Exclusively the study investigates, whether variances of the utilization of funds for BPL sector in least developed districts of the State of West Bengal significantly differ with that of the comparatively developed districts of the State.

In order to address the above objectives, the remainder of the paper is organized as follows. Section 2 deals with the research methodology adopted in this study. Section 3 delineates the hypothesis that has been set for this study. Section 4 is concerned with the analysis and findings of the study. Concluding observations are presented in section 5.

2. RESEARCH METHODOLOGY

The study is based on eight districts of the state of West Bengal, which have been selected by taking four from less developed, and four from developed districts. Less developed districts include Malda, Purulia, Murshidabad and Birbhum while Kolkata, Howrah, North 24 – Parganas and Darjeeling are included in the developed district category. Three NGOs having annual turnover of more than INR 1 million each and engaging themselves in three major activities like health and family welfare, sanitation and education/literacy programme have been chosen from each of the eight selected districts following stratified random sampling procedure.

Amongst the number of activities undertaken by the NGOs, health and family welfare, sanitation, and education/literacy programme have been considered for the purpose of this study as these programmes of the NGOs are supposed to have direct impact on the poorer section of the society. The data used in this study have been collected through both personal interview administering structured questionnaire among key NGO officials and observation of official documents of the NGOs, viz., accounting and audit reports. The information have also been obtained through discussion and consultation with government officials at block and panchayet levels and some beneficiaries of the NGOs. Keeping in view the objective of the study, the information has been collected on the following aspects.

- Area of operation of the NGOs;
- Major activities performed by the NGOs;
- The funding agencies and donors of the NGOs;
- Annual turnover of the NGOs for the year 2004-05, 2005-06, 2006-07;
- Budgetary allocation for each of the activities;
- Special scheme undertaken for BPL categories;

The period of the study covers three years only from 2004-2005 to 2006-2007. The field study has been conducted during the year 2008 – 2009.

To achieve the stated objectives, after computation of variance of the utilization of funds for BPL sector, Variance Ratio Test or *F*-test has been used to examine whether the variances of utilization of funds for BPL sector between the underdeveloped districts and the developed districts of the state significantly differ between themselves. For this purpose, the ratios of variances given by each individual underdeveloped district vis-à-vis developed districts have been obtained.

3. HYPOTHESIS

While carrying out this study, the following null hypothesis (H_0) and alternative hypothesis (H_1) have been framed:

H_0: There are no significant differences in variance of utilization of funds for BPL sector between each individual underdeveloped district (σ_1^2) and the developed districts (σ_2^2) of the state, i.e., is $\sigma_1^2 = \sigma_2^2$

H_1: The variances of utilization of funds for BPL sector between each individual underdeveloped district and the developed districts of the state differ significantly, i.e., $\sigma_1^2 \neq \sigma_2^2$

F value has been obtained by dividing the greater variance by the smaller variance, i.e.

F = greater variance / smaller variance

$v_1 = n_1 - 1$ and $v_2 = n_2 - 1$

v_1= degrees of freedom for sample having larger variance

v_2= degrees of freedom for sample having smaller variance

In the present study, $v_1 = 2$ and $v_2 = 2$ (as $n_1 = n_2 = 3$) for all the cases. So, the calculated value of *F* is compared with the tabulated value of *F* (19.00) at 5% level of significance with $v_1 = 2$ and $v_2 = 2$ degrees of freedom (d.f.). If the calculated value of *F* is greater than the table value, the *F* ratio is considered significant and the null hypothesis (H_0) is rejected. On the other hand, if the calculated value of F is less than the table value, the null hypothesis (H_0) is accepted and it is inferred that both the samples have come from the population having same variance.

TABLE 1.1

District-wise Variance of Utilization of Funds for BPL Category

Project: *Health and Family Welfare*

Districts	HDI Rank#	Funds Utilized for BPL Category (%) (2004-05)	Funds Utilized for BPL Category (%) (2005-06)	Funds Utilized for BPL Category (%) (2006-07)	Variance (Var.)
UNDERDEVELOPED					
Malda	17	71.9	61.09	69.81	32.88
Purulia	16	74.5	66.00	66.7	22.26
Murshidabad	15	73.29	69.2	73.5	5.88
Birbhum	14	72.3	73.38	70.05	2.89
DEVELOPED					
Kolkata	1	68.67	65.8	70.1	4.80
Howrah	2	66.7	58.09	68.2	29.77
24 Parganas (North)	3	75.7	67.19	70.7	18.29
Darjeeling	4	64.37	71.9	69.78	15.08

Source: Field Survey, Results computed.

obtained from West Bengal Human Development Report, 2004.

TABLE 1.2

District-wise Variance of Utilization of Funds for BPL Category

Project: *Sanitation*

Districts	HDI Rank#	Funds Utilized for BPL Category (%) (2004-05)	Funds Utilized for BPL Category (%) (2005-06)	Funds Utilized for BPL Category (%) (2006-07)	Variance (Var.)
UNDERDEVELOPED					
Malda	17	70.41	68.6	67.75	1.85
Purulia	16	70.3	69.8	74.19	5.78
Murshidabad	15	70.05	68.9	71.33	1.48
Birbhum	14	67.50	71.04	66.66	5.40
DEVELOPED					
Kolkata	1	60.19	71.5	72.30	45.87
Howrah	2	74.4	64.51	77.8	47.67
24 Parganas (North)	3	68.5	69.78	67.71	1.09
Darjeeling	4	60.19	65.1	61.09	6.83

Source: Field Survey, Results computed.

TABLE 1.3

District-wise Variance of Utilization of Funds for BPL Category

Project: *Education/Literacy Programme*

Districts	HDI Rank*	Funds Utilized for BPL Category (%) (2004-05)	Funds Utilized for BPL Category (%) (2005-06)	Funds Utilized for BPL Category (%) (2006-07)	Variance (Var.)
UNDERDEVELOPED					
Malda	17	70.5	75.2	74.23	6.16
Purulia	16	68.2	71.1	72.5	4.81
Murshidabad	15	69.9	72.8	70.07	2.65
Birbhum	14	64.01	70.7	68.8	11.89
DEVELOPED					
Kolkata	1	62.5	66.12	71.5	20.51
Howrah	2	64.00	71.5	74.78	30.54
24 Parganas (North)	3	62.1	63.5	63.81	0.83
Darjeeling	4	70.81	69.9	67.00	3.96

Source: Field Survey, Results computed.

TABLE 2.1

District-wise F Ratio

Project: Health and Family Welfare

Underdeveloped Districts Developed Districts	F Ratio	Remarks	Acceptance/Rejection of null hypothesis
Malda/ Kolkata	6.85	Insignificant	Accepted
Malda/ Howrah	1.11	Insignificant	Accepted
Malda/24 Parganas (North)	1.80	Insignificant	Accepted
Malda/ Darjeeling	2.18	Insignificant	Accepted
Purulia/ Kolkata	4.64	Insignificant	Accepted
Purulia/ Howrah	1.34	Insignificant	Accepted
Purulia/24 Parganas (North)	1.22	Insignificant	Accepted
Purulia/ Darjeeling	1.48	Insignificant	Accepted
Murshidabad/ Kolkata	1.22	Insignificant	Accepted
Murshidabad/ Howrah	5.06	Insignificant	Accepted
Murshidabad/24 Parganas (North)	3.11	Insignificant	Accepted
Murshidabad/ Darjeeling	2.56	Insignificant	Accepted
Birbhum/ Kolkata	1.66	Insignificant	Accepted
Birbhum/ Howrah	10.30	Insignificant	Accepted

Underdeveloped Districts Developed Districts	F Ratio	Remarks	Acceptance/Rejection of null hypothesis
Birbhum/24 Parganas (North)	6.33	Insignificant	Accepted
Birbhum/ Darjeeling	5.22	Insignificant	Accepted

Source: Field Survey, Results computed.

Note: Null hypothesis is accepted if the *F* ratio is less than the critical value of 19.00 for v_1=2 and v_2=2 d.f. at 5% level of significance. Otherwise *F* ratio is rejected.

TABLE 2.2
District-wise F Ratio
Project: ***Sanitation***

Underdeveloped Districts Developed Districts	F Ratio	Remarks	Acceptance/Rejection of null hypothesis
Malda/ Kolkata	24.79	Significant	Rejected
Malda/ Howrah	25.77	Significant	Rejected
Malda/24 Parganas (North)	1.70	Insignificant	Accepted
Malda/ Darjeeling	3.69	Insignificant	Accepted
Purulia/ Kolkata	7.94	Insignificant	Accepted
Purulia/ Howrah	8.25	Insignificant	Accepted
Purulia/24 Parganas (North)	5.30	Insignificant	Accepted
Purulia/ Darjeeling	1.18	Insignificant	Accepted
Murshidabad/ Kolkata	30.99	Significant	Rejected
Murshidabad/ Howrah	32.21	Significant	Rejected
Murshidabad/24 Parganas (North)	1.36	Insignificant	Accepted
Murshidabad/ Darjeeling	4.61	Insignificant	Accepted
Birbhum/ Kolkata	8.49	Insignificant	Accepted
Birbhum/ Howrah	8.83	Insignificant	Accepted
Birbhum/24 Parganas (North)	4.95	Insignificant	Accepted
Birbhum/ Darjeeling	1.26	Insignificant	Accepted

Source: Field Survey, Results computed.

Note: Null hypothesis is accepted if the *F* ratio is less than the critical value of 19.00 for v_1=2 and v_2=2 d.f. at 5% level of significance. Otherwise *F* ratio is rejected.

TABLE 2.3
District-wise F Ratio
Project: *Education/Literacy Programme*

Underdeveloped Districts / Developed Districts	F Ratio	Remarks	Acceptance/Rejection of null hypothesis
Malda/ Kolkata	3.33	Insignificant	Accepted
Malda/ Howrah	4.96	Insignificant	Accepted
Malda/24 Parganas (North)	7.42	Insignificant	Accepted
Malda/ Darjeeling	1.56	Insignificant	Accepted
Purulia/ Kolkata	4.30	Insignificant	Accepted
Purulia/ Howrah	6.40	Insignificant	Accepted
Purulia/24 Parganas (North)	5.75	Insignificant	Accepted
Purulia/ Darjeeling	1.20	Insignificant	Accepted
Murshidabad/ Kolkata	7.74	Insignificant	Accepted
Murshidabad/ Howrah	11.52	Insignificant	Accepted
Murshidabad/24 Parganas (North)	3.19	Insignificant	Accepted
Murshidabad/ Darjeeling	1.49	Insignificant	Accepted
Birbhum/ Kolkata	1.73	Insignificant	Accepted
Birbhum/ Howrah	2.57	Insignificant	Accepted
Birbhum/24 Parganas (North)	14.33	Insignificant	Accepted
Birbhum/ Darjeeling	3.00	Insignificant	Accepted

Source: Field Survey, Results computed.

Note: Null hypothesis is accepted if the *F* ratio is less than the critical value of 19.00 for $v_1=2$ and $v_2=2$ d.f. at 5% level of significance. Otherwise *F* ratio is rejected.

4. ANALYSIS AND FINDINGS OF THE STUDY

Based on the analysis of data collected from the NGOs, and results shown in tables 2.1, 2.2 and 2.3, the major findings of the study are highlighted as follows:

4.1. Health and Family Welfare

Table 2.1 shows that, in 'Health and Family Welfare Programme', the null hypothesis is tenable for all the underdeveloped district /developed district ratios. It implies that there are no significant differences in variance of utilization of funds for BPL sector between each individual underdeveloped district and the developed districts of the state, that is $\sigma_1^2 = \sigma_2^2$.

One of the objectives of the Eleventh Five Year Plan is to achieve good health for people, especially the poor and the underprivileged. Consequently, the 'Department of Health and Family Welfare' has focused its attention on improving the primary health sector by channelizing adequate financial and manpower resources with the help of NGOs and Private Sector initiatives. The resources have been pooled from the State Plan, National Rural Health Mission, KfW assisted Basic Health Project (BHP) and the DFID assisted health system development initiatives.

The Honorary Health Worker Scheme under Community Based 'Primary Health Care Service' for extending better health care facilities to the people of the urban local bodies particularly belonging to the BPL families is being successfully implemented by most of the selected NGOs. For enhancing the access of primary health care to the poor and extending the reach of all health programmes to the larger sections of the rural people camp-based outdoor services are also organized by the NGOs.

4.2. Sanitation

Table 2.2 reveals that the variances of utilization of funds for BPL sector between each individual underdeveloped district and the developed districts of the state differ significantly in four situations, (i.e., $\sigma_1^2 \neq \sigma_2^2$), such as Malda/Kolkata (F ratio : 24.79); Malda/Howrah (F ratio: 25.77) ; Murshidabad/ Kolkata (*F* ratio: 30.99) and Murshidabad/Howrah (*F* ratio : 32.21). So, null hypotheses have been rejected in these four situations. However, the other ratios provide no evidence against the null hypothesis and hence null hypotheses have been accepted for these ratios.

It may be mentioned in this connection that, in West Bengal, 'Total Sanitation Campaign' (TSC), a centrally sponsored programme was launched in 1999. Under TSC, sanitary marts are set up in each block by the NGOs. The function of sanitary marts is to produce low cost sanitary latrines and to promote awareness about the need for sanitary latrines. Till March 2007, 333 sanitary marts have been set up in different blocks.

4.3. Education/Literacy Programme

Table 2.3 discloses that the null hypothesis is true for all the ratios. It implies that there are no significant differences in variance of utilization of funds for BPL sector between each individual underdeveloped district and the developed districts of the state.

Education programme is one of the major thrust areas of the NGOs operating in the State. 'National Literacy Mission' is trying to give more emphasis on scheduled castes, scheduled tribes, minorities, rural women and particularly people living beneath the poverty line. Keeping this fact in mind, special focus is laid upon literacy through short-term projects in the districts having considerable minority population involving NGOs functioning in those districts.

As subordinate programmes of Continuing Education Programmes, different kinds of target specific programmes, such as Equivalency Programme, Quality of Life Improvement Programme, Individual Interest Promotion Programme, Income Generating Programme, etc are being implemented for BPL category through the NGOs.

5. CONCLUDING OBSERVATIONS

Based on the findings of the study, it is observed that NGOs have been able to contribute towards making the lives of the poor a little more tolerable by providing basic health care facilities, education and sanitary latrines to the underprivileged. However, the overall impact of the contribution made by the NGOs on the development in the State is still marginal in relation to the vast, complex and structural problems of poverty. Health service delivery needs overall improvement at all levels and more involvement of government departments along with NGOs is necessary to ensure wider coverage. In education, certain spatial and social pockets of illiteracy need to be addressed. In general, the districts and blocks that are more remote and inaccessible tend to have lower rates of literacy and schooling. Regarding sanitation, there is distinct inadequacy in some districts, where at least 15 per cent of the population is yet to be covered. Though the NGOs are carrying out large number of projects for the development of the backward districts of the State, yet some lapses have been found in respect of sanitation programme in the districts of Malda and Murshidabad where more allocation of fund is necessary. Moreover, the NGO projects and programmes should be targeted to specific areas and specific groups of people so as to address their specific needs and ensure effective development.

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Marketing of Banking Services through 7 Ps – A Contemporary Strategic Approach

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ABSTRACT : *Marketing is an art of demand creation. It is the demand of recent days performing methodical marketing with the intention to ensure altering banking behavior of customers. Banking services are fetching further intricacies with the situational changes emanating since privatization, liberalization and globalization. For generating banking business and to survive in the turbulent market, banks currently necessitate marketing. Emergence of private and foreign players has given a boost to marketing in this sector. The fundamental emphases are given on efficient and courteous customer services; attractive and innovative schemes; increasing subsidiary services and aggressive personalized selling strategies. Marketing has not only remained a strategy, but also it has become the pro-consumer philosophy in case of banking services. In the changing nature of the society and the customer itself, a wide range of marketing strategies are the need of hour for banking services to promote.*

Key words : *Marketing, Banking Services, 7Ps, Strategy.*

1.0. PROLOGUE

Marketing is a methodical and professional approach of gratifying consumer's requirements in reciprocally advantageous comportment. In marketing, customers steal the show of entire marketing

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process. With the intention of attracting[1] customers, banks have started to accord highlighting on marketing of its products and services. The banking business is abuzz with talk of marketing with the mounting adaptation by banks to information-technology-linked products and services. Bank marketing is the aggregate of functions directed at providing service to please customers, financial and other related needs and wants more effectively and efficiently. Each character working in a bank is a marketing personality (because they represent the bank as a service provider) who contributes to the total gratification of customers. Never before the concept of marketing with regard to banking services were accorded such a magnitude. The period between 1969 and 1990 was purely an era of development banking. The bankers during this period never even thought of necessity to discover what the customers require. But now, there are broad ranges of services rendered by the banks to its customers. The financial sector in general and the banking sector in particular have undergone phenomenal transformation with the commencement of economic liberalization. The novel private sector banks with newest technology orientation have emerged largely. Now every country has a well-developed network of communication facilities and banking institutions are accessible in plenty. The customer awareness is increasing gradually. There has been a phenomenal alteration and paradigm shift towards customers. In the cutthroat competitive circumstances, customers are most important for every business. Banking business is not an outstanding case. Hence, marketing and marketing strategy are vital to stay alive in the turbulent market scenario for the banking service providers.

As part of the economic reforms, banking industry has been deregulated and made competitive. New players have added to the competition. IT revolution has made it possible to provide ease and flexibility in operations to customers. Rapid strides in information technology have, in fact, redefined the role and structure of banking in India. Further, due to exposure to global trends after Information explosion led by Internet, customers - both Individuals and Corporate - are now demanding better services with more products from their banks. Financial market has turned into a buyer's market. Banks are also changing with time and are trying to become one-stop financial supermarkets. There has been paradigm shift of banking operations in the midst of IT revolution. The nature of banking activities got shifted from social banking to commercial banking, traditional class banking to mass banking, brick and mortar banking (banking at fixed branch premises) to electronic banking, local banking to universal banking. 'Queue banking' has been replaced by 'click banking' and 'computerized banking' substituted the 'manual banking'. Many Innovative solutions in retail and corporate banking such as plastic money, electronic banking, phone banking, SMS banking, internet banking, core banking etc. have been evolved. 'Anytime-anywhere-anyhow banking' has become new mantra in banking sector.

2. BANKING SERVICES

Banks in India have traditionally offered mass banking products and services. Most common deposit products are Savings Bank Account, Current Account, Term deposit Account and lending products being Cash Credit and Term Loans. Further, remittance products are limited to issuance of Drafts, Telegraphic Transfers, Bankers Cheque and Internal Transfer of funds. In view of several developments in the 1990s, the entire banking products structure has undergone a revolutionary change. Market focus is shifting from mass banking products to class banking with introduction of value added and customized products. A few foreign & private sector banks have already introduced customized banking products like Investment Advisory Services, SGL II accounts, Photo-credit cards, Cash Management services, Investment products and Tax Advisory services. A few banks have gone in to market mutual fund schemes. The bank of the future has to be essentially a marketing organization that also sells banking products. Products like debit cards, flexi deposits, ATM cards, personal loans including consumer loans, housing loans and vehicle loans have been introduced by a number of banks.

3. MARKETING MIX COMPONENTS FOR BANKING BUSINESS

The quintessence of marketing strategy is to provide the organization with a sustainable competitive edge in the market in which it operates. This requires that the organization both understands consumer needs and identifies how those consumers can be segmented into different groups. After identifying the explicit target segments, banks necessitate discovering apposite marketing mix components and strategies need to be adopted accordingly. Figure 1 is presenting different marketing mix elements of banking business.

4. STRATEGIC COMPONENTS FOR BANKING SERVICES

In classical marketing literature, there are four components (4Ps) of marketing strategy, i.e. product, price, place and promotion. In case of bank marketing, supplementary 3Ps are also indispensable, i.e. people, process and physical evidence. Following are the vital components of bank marketing strategy.

- Product strategy,
- Place strategy,
- Promotion strategy,
- Price strategy,
- People strategy,
- Process strategy,
- Physical evidence strategy,

All these strategic apparatus are interconnected and mutually dependent and consequently considered concomitantly.

Figure 1: 7 Ps of Marketing

4.1. Product Strategy

The production of quality services (products) is decisive because of the strong existence of human factor. Product Strategy may prove a grand panacea for such banks, which have been anguishing from high operational cost, lesser productivity, sustained losses, pitiable customers' retort and patronage, diminishing demand for credit, decelerate deposit growth. It may be mentioned that the reflection of any commercial banks, is crystallized through the quality of its products / services and customer satisfaction apart from its financial strength and vigor. Product Strategy is an integral part of bank marketing strategy, which is ingredient of following essentials.

- Situation analysis,
- Defining product objectives,
- Composing product mix,
- Determining products,
- Positioning and formulating product policies.

In a given situation or condition banks needs to offer customized services. They must know how the offers will serve customers requirements and need to identify ingredients of product mix. Banks must identify its superior products and emphasis on positioning it among the specific target customers. In this context, customers, competitors, technology and government may play a pivotal role. Here, customers' feedback should be taken into account and analysis of competitors' viewpoint may be very vital. Technological advancement and RBI guidelines provide having edge over its competitors in the market. The banking sector needs to formulate a resonance product strategy keeping in view the needs, wants and expectations of the bank customers across the nation with varying cultures, religions, customs, traditions and income. Islamic banking, has been introduced in Kerala to offer some unique services, is based on the concept. Profitability of some private sector banks (ICICI bank, HDFC bank and AXIS bank) has increased to greater extent after the introduction of customized product policies in comparison with their earlier performances. Up till now, Indian banking sector have lagged behind in corresponding its products and services to diverse market segments.

4.2. Price Strategy

The price is the amount of money a customer pays for the services availed by him or her. Price refers to rate of interest of loans / advances paid to the banks. It is determined by a number of factors including competition, service quality, private or public ownership etc. It can also be used as a marketing tool by the bankers. Due to Reserve Bank of India guidelines, Banks have had little to do besides accepting deposits at rates fixed by Reserve Bank of India and lend amount arrived by the formula stipulated by Reserve Bank of India at rates prescribed by the latter. PLR (Prime lending rate) was the benchmark for interest on the lending products. But PLR itself was, more often than not, dictated by RBI. The price strategy as marketing tool of banks has got very little practical vitality because of the administered pricing structure. This has been the refrain of many branch bankers. The target market for banks comprise person engaged in agricultural activities, small business etc., there is a bright opportunity for banks in getting term deposits for a small period of time. This opportunity can be grabbed by using the freedom given to bankers in determining the rate of interest.

4.3. Place Strategy

Place represents the location where the bank is established. It is often referred to as the service centre / counter. If the bank is situated at a metro city, it will acquire a good deal of competitive edge over rural areas. So, place is also a vital promotional tool for the bankers. The place strategy in marketing especially answers the question 'where to market the products or services of a particular bank?' It refers to the establishment and operation of outlets for the physical distribution of the product according to customers' need. There is rationalization to treat the service area as the place of business for a bank. It is evident that non-availability of infrastructure facility is not a problem but lack of quality and variety of services offered in the service area is the problem. It implies that a branch can get a majority of the customers from the immediate proximity of the bank premises. Another aspect of significance in the context of customer convenience concerns the business hours of the branch. The business hours of the bank branches should be decided upon taking into account the operational convenience of major clientele sections to which the branch caters.

New distribution channels are being used; more & more banks are outsourcing services like disbursement and servicing of consumer loans, Credit card business. Direct Selling Agents (DSAs) of various Banks go out and sell their products. Home banking has already become common, where you can order a draft or cash over phone/internet and have it delivered home. ICICI bank was the first among the new private banks to launch its net banking service, called *'Infinity'*. It allows the user to access account information over a secure line, request cheque books and stop payment, and even transfer funds between ICICI Bank accounts. Citibank has been offering net banking to its *'Suvidha'* program to customers. SBI, IDBI bank has started developing spreading its network abroad. SBI increased its branch expansion and ATM counter across the country ever before.

4.4. Promotional Strategy

Promotion represents all the communications that a bank uses in the marketplace. Promotion has a few distinct elements such as:

- Advertising,
- Public relations,
- Publicity,
- Personal selling,
- Direct and web marketing etc.
- Promotion through e-mail, telemarketing, online marketing, kiosk marketing, bio-metric kiosk marketing, home banking etc.

Banking institute emphasizes primarily on advertising rather than all. Among all these promotional tools, kiosk and online marketing has been proved the best promotional tools for banks. Promotional strategy has to be designed to fit between competitive environment and social environment. It is a routine affair for all bank branches to adopt various promotional strategies to persuade customers. With reference to impersonal effort, all the banks adopt innovative impersonal strategies by participating in fairs and exhibitions and also by sponsoring competitions for school children, competition during festive seasons and various events. Apart from these audio-visual aids, TV channels are also used for communicating bank's information to promote bank and to create customer awareness about the banking offers.

4.5. Service Delivery Process Strategy

The procedures, mechanisms and flow of activities, which lead to an exchange of value, are called process. The way service providers render services to the customers, plays a pivotal role in gaining the competitive advantages. If the service process of a bank is hassle-free, uncomplicated, prompt, perfect and technology-driven, it will undeniably make a bank with difference. Examples might include the way a customer is treated or render services by a staff member or the length of time a customer had to wait to get services from them. The service delivery process should never be a hurdle for business promotion. It must be customized and customer-driven to get competitive edge. Services delivery process can be made customized by offering the services according to the customers' choice and preference. Say for example, a retired and old couple may opt for home banking rather than brick and mortar banking. Banks are also offering similar type tailor-made services to its individual customers to retain them.

4.6. Strategy Related to Physical Evidence

It is the direct sensory experience of a service that allows a customer to measure whether he or she has received adequate facilities by the banking institution. Examples might include the physical environment wherein services delivered, the physical facilities provided to the customers, the infrastructure created by the bank for customers etc. It might include state-of-art technology, building, sitting arrangement, drinking water facility in the branch, lavatory and urinal facility for customers, entire ambience, parking facility, computerized services, number of bank branches, number of ATM counters, number of employees in a branch etc. All these play a decisive role in marketing of banking institution. This physical evidence as a strategic tool for the banker derives its sustenance from the 'intangibility' principles of banking products and services. Making the 'intangible offers' into tangible through physical evidence is a fundamental challenge to the bank marketers. Services are intangible, must be made tangible by the banks through offering kind of documents, certificates, receipt, counter foil of the transactions made over the period of time with a view to build confidence among the customers.

4.7. People Strategy

Employees are the internal customers of banks. As banking is a service sector, here, the direct services encounter is completed by the front line employees. Customer service, pleasure and withholding etc. depend on the manner; the internal customers are rendering services to the customers (external customers). Management of internal customers and satisfaction level of these customers by the bankers have direct and positive correlation with the existence of the banks. It implies that if the employees are not appropriately managed and contented by the banks, the satisfaction level of the external customers will also be reduced. Internal customers entail specialized proficiency to tender superior services to customers. Training can be prearranged by the banks to ascertain developing the knowledge, skill and attitude (KSA) of the bank employees. Specialized skills in retail banking, treasury management, risk management, foreign exchange transaction, development banking knowledge etc. can be gained by the employees.

The pillar of the banking sector i.e. human resources will have to be strengthened. The new changes in the market can create challenges and bank employees must be made to adapt to changing environment. Superior amenities can be provided with a view to gratify the employees. Then the satisfied employees can take care of the all external customers. SBI recently introduced a policy to recruit the employees who are very passionate to serve the poor in rural India. Rigorous training is pertained to all of them to ensure having better service providers than the competitors. In this connection, Private Sector banks are lagging behind from the counterpart i.e. Public Sector banks.

5. OTHER MARKETING STRATEGIES

5.1. Relationship Marketing

Relationship Marketing (RM) is an enduring progression of appealing in cooperative and collaborative activities and programs with end-user to generate or mutual economic value to shrink cost. RM remunerates the customer as well as bank. Marketing from a relational perspective had been defined as the process of identifying and establishing, maintaining, enhancing, and when necessary terminating relationships with customers and other stakeholders, at a profit, so that the objectives of all .parties concerned are met, where this is done by a mutual giving and fulfillment of promises. Customers will desire continuity with the same providers, a proactive service attitude, and customized service delivery. The five strategy elements for practicing relationship marketing are:

- Developing a core service around which to build a customer relationship,
- Customizing the relationship to the individual customer,
- Augmenting the core service with extra benefits,
- Pricing services to encourage customer loyalty, and
- Marketing to employees so that they in turn will perform well for customers.

The above mentioned strategic elements of relationship marketing starts with developing a core service which revolves around the customers and the relationship building is also to be made customized. Value added offers needs to be made, affordable price for services to be decided and better customer services must be ensured by the service providers to build relationship.

Depending on the type and number of bonds that bank uses to foster customer loyalty, RM can be practiced at one of the three levels:

- At level one RM is the level of retention marketing.
- At level two, the branch bankers may go beyond pricing incentives in building relationships.
- At level three, branch bankers may attempt to strengthen the relationships with structural bonds in addition to the social and financial bonds.

The higher the level at which relationship marketing is practiced, the higher is the potential pay off. Relationship marketing strategy in future should also deem the effective use of technology as it enables relationship building by facilitation precision management, by liking everyone and everything together and by staking the thirst for knowledge and learning. Relationships are the key, while technology is the tool. Bankers should embrace the concept of customer loyalty and get committed to building and maintaining customer relationships. The selling relationship should be defined as the attraction, maintenance and enhancement of customer relationships. Relationship banking has been a part of the Indian banking culture and has become all the more important in the emerging competitive financial services market.

Relationship Marketing (RM) is a strategy, which is interlinked with the 7Ps of banking service marketing, helps building long term relationship between bank and customer, which ultimately lead to develop strong bond between the parties.

5.2. Customer Retention

In the present days, customers have become demanding and the loyalties are diffused. There are numerous choices; the wallet share is reduced per bank with demand on flexibility and customization. Given the relatively low switching costs; customer retention calls for customized service and hasslefree, flawless service delivery. In today's competitive surroundings, banks will have to strive to attract and retain customers by introducing innovative products, enhancing the quality of customer service and marketing a wide array of offers through diverse channels targeted at specific customer groups. Loyalty needs to be enhanced by the banks for retaining the existing customers. Customer retention can trim down the marketing cost up to 80%; hence it is very vital for banks than attracting new-fangled customers.

5.3. Managing Standards and Quality

Managing banking service at per with the international standards has become one of the most decisive challenges. Service quality desires to be elevated to a greater height to maintain international standards. A sky-scraping degree of excellence of services must be catered to the bank customers. Dimensions of service quality such as,

- Tangibles,
- Reliability,
- Responsiveness,
- Assurance and
- Empathy etc. have to be given due importance (Parsuraman et. al, 1985). To uphold in a cutthroat competitive turbulent milieu, bankers need to be very customer responsive, CRM orientation and offering customized quality services become pre-requisite to encompass competitive advantages. Service quality is the key to measure customer satisfaction (Pitt et. al., 1995) and managing standards and service quality will unquestionably impact on customer preferences. That is why appropriate attention ought to be ascertained by the banks to manage standard and quality of services.

6. CONCLUSION

Banking institutions get a strategic position by giving an emphasis on the areas such as geographical areas, income, type of customers served and nature of products and services. The key to success in retail banking are quality services and cost competitiveness. The hosts factors are seen behind the success of banking institution are as follows.

- The first factor is the enhancement of sales and marketing capacities. This involves knowledge of customer preferences, development of potential markets by developing consultative sales activity and understanding of needs, and strengthening the appeal of customers.

- The second factor is the continuous changing of the banking offers / services. The key to success for its implementation is the development of new products by Research and Development division that anticipates the need of the markets and the consumers.

- The third factor is the reform in the management system. In the adverse business circumstances, it is important for businesses to shift their employee's focus towards customers and maintain their corporate vitality. In the customer-led age, business must realize that they are members of both international and regional society.

- The fourth factor is the banking institutions introducing research and development facility in sectors where their strength lies, thereby enhancing their specialty along with information systems.

It is indispensable to eradicate organizational inflexibility and bureaucracy to simplify decision-making system with the intention of-enabling quick response to customers and market. To reinforce the banking services, emphasis ought to be given on the marketing communication along with marketing and promotion of business activities. The effective application of IT in banking will contribute to upgrading quality of services. The efforts of the banking institutions should be more towards the needs and preferences of customers. The job of the banking sector will be to set up a means of making it a financial supermarket, where the customers will have the options of availing any kind of product and service choice.

Banking services should be rendered at the affordable price to all segments of the customer in general and special offer to the vulnerable sections of the society. Banks should build strong network in terms of number of branches and ATM counters across the country. The process of rendering services must be hassle free, fast and accurate. Adequate physical evidence ought to be offered to customer with a view to rebuild customers' confidence.

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Universal Primary Education for Girls in India : A state Specific Analysis Based on the DISE Data

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ABSTRACT: Education of girls has been given a high priority by the Govt. of India. The National Commitment to provide free and compulsory education to all children in the age group 6-14 years is now a Fundamental Right of every child in India after the passing of the 86th Amendment Act of the constitution in Dec 2002. One of the important objectives of this programme is to bridge gender and social category gap at the primary stage. Various programs have been launched for girl education both at the central as well as state level. The present paper makes an attempt to study the scenario of girl education after the introduction of these policies. A state wise analysis has been carried out. The analysis reveals that the picture of girl education in most of the states of India are quite impressive after the intervention of SSA but some state specific differences do exist in achieving the goal of Universal Elementary Education (UEE).

Key Words: *Elementary Education, Policy, Gender.*

1. INTRODUCTION

In the perspective of adopting human development as the end goal of all developmental efforts, empowerment of women and development of children gains priority on the country's development agenda. It

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is a widely accepted fact at present that education is one of the most important pre-requisites for women's development. According to demographers many cross country evidence strongly support that increased schooling is positively associated with reduced fertility and child mortality. Studies have shown that schooling improves a mother's child care skills, domestic management of ill health and efforts at preventive care, as also increasing immunization rates. Mother's schooling also has a positive impact on children's nutritional status. Among its economic effects there is a greater readiness to mobilize credit and willingness to use banks and establish cooperatives and small business enterprises. In fact woman development as well as gender issue is a very wide spectrum for any developmental activities.

The United Nations Convention on the Rights of the child (1988) and Millennium Development Goals (2000) prompted the international community of governments, international organizations and NGOs to work to provide education for all girls and boys and to eliminate gender disparities at both primary and secondary level. This commitment has yielded results. The latest UN figures show that more girls are in school than ever before. In 2005, global primary net enrolment rates for girls rose up to 85% from 78% in 15 years. But wide disparity remains between different regions and countries and even within countries. Girls still account for 60% of children out of school in Arab countries and 66% of non-attendance in South and West Asia. By contrast more girls than boys attend schools in many countries in Latin America, the Caribbean, North America and Western Europe. Failure to educate girls has a direct impact both on their families and society. Data shows a strong correlation between mortality rates and educational attainment of mothers (UNICEF 2005). Girls whose mothers are educated are more likely to be healthy and go to school themselves (Plan 2007).

A number of studies have shown that increasing the number of girls benefiting from education has a positive effect on a country's per capita economic growth (Dreze, Jeane and Sen 2002).

India has made long strides in the last 50 years in the field of education. Constitutional provisions and various post independent educational policies and programmes accorded top priority for achieving the goals of universal elementary education. Sarva Siksha Avijan(SSA), an integrated flagship programme of Govt. of India lays emphasis on bridging all gender and social category gaps at elementary education level with time bound objectives. To provide access to elementary education, improving retention and ensuring quality of girls education in both primary and upper primary level SSA has incorporated various gender sensitive component such as conducting awareness generation campaign, promoting gender sensitization of teachers on a regular basis, appointment of more teachers at primary level, developing resource materials on gender issues, training of female VEC(Village Education Commitee) members, building separate toilet for girls, providing special incentives like free supply of uniforms, text books, mid- day meals, scholarships etc. To achieve this goals or objectives, various specific policies for girls have been adopted so far (discussed below). After 7 years of implementation of SSA, it is time to undertake and appraisal of the performance of this programme in the realization of its objectives. An attempt is made in this article, using data published by National Institute of Educational Planning and Administration, New Delhi 2007, to carry out a supply side analysis of this elementary education scenario of girls in India.

2. POLICIES ADOPTED BY THE GOVERNMENT OF INDIA :

Reaching out to the girl child is central to the efforts to universalize elementary education. SSA or education for all programme recognizes that ensuring girl's education requires changes not only in the education system but also in societal norms and attitudes. A two pronged gender strategy has therefore been adopted, to make the educational system responsive to the needs of the girls through targeted interventions which serve as a pull factor to enhance access and retention of girls in schools and on the other hand to generate a community demand for girls' education through training and mobilization.

Efforts are being made to generate a community demand for girls' education and enabling conditions for people's and women's participation, to create the push factors necessary to guarantee girls education. Motivation and mobilization of parents and the community at large, enhancing the role of women and mothers in school related activities and participation in school communities and strengthening the linkages between the school, teacher and communities are some of the ways in which the enabling conditions are being created.

Early Childhood Care and Education is a critical and essential input in freeing girls from sibling care responsibilities, leading to their regular attendance in school and in providing school readiness skills to pre school children. SSA works in a convergent mode with the Integrated Child Development Services (ICDS) programme. In addition, to target pockets where girl education is lagging behind, the Govt. of India has launched two focused interventions for girls- the National Programme for Education of girls at Elementary level (NPEGEL) and the Kasturba Gandhi Balika Vidyalaya(KGBV) to reach out to girls from marginalized social groups in over 3000 educationally backward blocks in the country where the female rural literacy is below the national average and the gender gap in literacy is above the national average. The NPEGEL launched in September 2003 is an integral but distinct component of the SSA. It provides additional provisions for enhancing the education of underprivileged/disadvantaged girls at elementary level through intense community mobilization, the development of model schools in clusters, gender sensitization of teachers, development of gender sensitive learning materials, early child care and education facilities and provision of need based incentives like escorts, stationery, work books and uniforms etc. for girls. All educationally backward blocks have been included under NPEGEL.

KGBV is a scheme launched in July 2004 for setting up residential schools at upper primary level for girls belonging predominantly to the SC, ST, OBC and minority communities. The scheme is being implemented in educationally backward blocks of the country where the female rural literacy is below the national average and gender gap in literacy is above the national average. The scheme provides for a minimum reservation of 75% of the seats for girls belonging to SC, ST, OBC or minority communities and priority for the remaining 25%, is accorded to girls from families below poverty line. The scheme is being implemented in 24 states(Assam, AP, Arunachal P, Bihar, Jharkhand, Gujrat, Haryana, HP, Karnataka, J&K, MP, Chattisgarh, Manipur, Maharashtra, Meghalaya, Mizoram, Orrisa, Punjab, Rajasthan, Tamil nadu, Tripura, UP, Uttaranchal and WB and the Union Territory of Dadra & Nagar Haveli. 280 KGBV were sanctioned by government upto March 2007. This scheme is merged with SSA in the XI th plan with effect from 1st April 2007.

Besides these national policies various states also initiated different programmes to promote girl education. UP launched a forum 'Meena Manch' for adolescent girls to discuss their own issues and motivate girls to attend school. Haryana govt. provides bicycles to girls on joining class VI in a govt.school located outside the village to prevent dropout at the end of class V and help girls to complete 8 years of schooling. Orrisa took an initiative (known as Kalasi dhara) to mobilize the community and formed the Mother Teacher Association(MTA) to monitor the attendance of teachers and children, cleanliness of the school compound, regularity of classes. The chosen mothers are also entrusted with the responsibility of bringing to school those children who are noted to be absent by motivating their parents etc.

3. Schooling Facilities Developed During SSA

There is no doubt that sufficient availability of schools within reach definitely encourages child education specially girl education. Together with this an encouraging learning atmosphere provide stimulus to the society for child education. In this section an attempt has been made to highlight key indicators which may be expected to influence girl education at elementary level.

Availability of schools : District Information System for Education (DISE) data shows that there is a significant increase in new schools during the period 2002-03 to 2007-08 **(Table-1)**. During this period govt. of Bihar, Jharkhand, Assam, Rajasthan, Uttar Pradesh gave significant emphasis on the opening of new schools. Besides these states other states also took serious initiative to provide schooling facilities to the children. If we compare the density of primary schools per thousand children during 2007-08 between different states, picture is quite encouraging. Density of schools is much higher than national average in Arunachal Pradesh, Assam, Chattishgarh, Himachal Pradesh, Jammu and Kashmir, Madhyapradesh, Manipur, Meghalaya, Mizoram, Rajasthan, Sikkim, Uttrakhand but the condition in Chandigarh, Daman and Diu, Delhi, Haryana, Kerala is dismal.

4. Availability of Some Common and Key Facilities Meant For Girls

Provision of drinking water and toilet facilities are very common requirement in the school. Data shows **(Table-2)** that still in this high technology era many schools do not even have drinking water facilities, girls' toilet, proper boundary wall, sufficient classroom etc. Arunachal Pradesh, Assam, Bihar, Jammu and Kashmir, Jharkhand, Karnataka, Manipur, Meghalaya, Mizoram, Sikkim, Tripura do not have drinking water facility in more than 40% schools. So far as girls' toilet is concerned the situation is very poor. Except Andhra Pradesh, Chandigarh, Haryana, Kerala, Pondicherry, Punjab, Uttar Pradesh, in most of the states more than 70% to 80% schools do not have girls' toilet. Schools with basic facilities may not only increase enrolment but also will help to increase daily attendance. A good learning atmosphere may encourage children to continue in school and may encourage parents to send their kids to school. Sometimes female teacher may encourage girl child enrolment. DISE data shows that at least more than 70% schools have female teacher.

5. Girls' Enrolment Vis A Vis Boys and Gender Parity Index(GPI)

GPI and percentage of girls' enrolment in primary and upper primary classes reveal (Table-3) that there is consistent improvement in GPI girls' share in enrolment. In a number of states, improvement in GPI in primary enrolment has been quite impressive in comparison to enrolment in the upper primary during the same period. The data presented above clearly indicate that boys outnumber girls both at the primary and upper primary levels of education. This is also reflected in the share of girls' enrolment indicating less no. of girls in upper primary classes than in primary classes which means serious implication for Universal Elementary Education(UEE). Further analysis of state specific GPI in primary enrolment indicates that the index remained above 0.95 in 14 states. Meghalaya has the highest GPI of above 1. Among the rest of the states Manipur, Lakshadweep and Sikkim too reported GPI above 1 in upper primary enrolment. Lower GPI indicates that the goal of UEE is not likely to be realized unless all the remaining girls' are brought under the education system. Rajasthan has the lowest GPI in Upper primary enrolment. Only 66 girls' are enrolled against 100 boys. Bihar, Dadra & Nagar Haveli, Gujarat, Jammu & Kashmir, Jharkhand and MP too have a very low GPI which clearly indicate that a large no. of girls' in these states are still out of school. All the north eastern states showed a high GPI in case of upper primary enrolment also. Meghalaya had more girls' in upper primary classes (GPI 1.10) than the boys. The share of girls' enrolment also indicates that it is lower than the share of boys enrolment both at primary and upper primary levels of education. Only a little improvement in the girls' share in the total enrolment in primary and upper primary classes is observed during 2005-06 and 2006-07. The share of girls' enrolment in primary classes in 2005-06 is 48.09% compared to 47.79% in the previous year. Girls' share in the total enrolment in upper primary classes in 2006-07 has been 46.51%, while it was 45.80% in 2005-06.It is observed that except in Bihar, Chandigarh and Punjab in all other states the share of girls enrolment at the primary level has been above 46%. In Bihar it was only 45.89% at primary level and at upper primary level it was 41.66% The share of girls enrolment in Chandigarh is also as low as 44.58% in primary and 45.19% in upper primary classes. Lower % of girls' enrolment at primary level again reiterates that without bringing all girls' under the education system the goal of UEE is not likely to be achieved in the near future.

6. Performance of Girls Vis A Vis Boys

Sustenance of upper primary education depends on transition rate from primary level. It is very significant that this rate is more or less at par between boys and girls (**Table-4**). Only in Rajasthan girls' transition rate is much lower than boys' transition rate. So far as drop out rate is concerned we get a dismal picture. In some states (Andhra Pradesh, Assam, Chandigarh, Meghalaya, Tripura, Uttar Pradesh, Uttrakhand) surprisingly boys' drop out rate is higher than girls' drop out rate. But except these states in all other states girls' drop out rate is higher than boys' drop out rate.

7. Examination Results

If we consider examination results (**Table-5**), girls' are doing very well and are at par with boys'. There is no such difference in performance between boys' and girls'. Not only in the rate but also in the number passed with 60% marks and above girls' performance is found satisfactory.

8. Conclusion

Women and men with better education earn more through out their lives and participate more fully in the civic and political lives of their communities and countries. Particularly for women, education confers skills and behavioral characteristics that lead to healthier lives. Education that reaches women, the poor and marginalized ethnic groups not only benefits them directly but also contributes to a more equitable and just society.

The analysis presented above reveals a quite satisfactory picture with respect to girl child education. There is a myth that girls are always restricted to go to school. But at least with respect to elementary education more or less girls are enjoying the same advantage to avail primary education as the boys. There may be some exception to it but the general picture is not so frustrating as it has been always stated. The transition rate, drop out rate , performance are not strikingly different between boys and girls. But there is some state specific difference to achieve the goal of UEE. While some states are doing very well others are still lagging behind. Also it may be observed that provision of various infrastructural facilities may not always encourage high enrolment or high attendance as anticipated. This implies that supply side provisions alone can not lead to achieve the 100% goal of UEE. The demand for education requires to be created within the society. Also state specific strategies are required to remove the inter state disparity in elementary education.

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APPENDIX

TABLE : 1

Availability of Schools

STATE/UT	No. of Govt. Schools opened (2002-03 to 2007-08)		Primary Schools per thousand child population (6-11 years)			Upper Primary schools per thousand child population (11-14 years)			Density of schools per 10 Sq. km. (2007-08)	
	PS	UPS	05-06	06-07	07-08	05-06	06-07	07-08	PS	UPS
A&N Islands	17	5	6	8	8	5	6	6	0.40	0.19
Andhrapradesh	6945	3690	10	11	11	7	7	7	3.05	1.28
Arunachal Pradesh	2420	47	24	28	39	9	9	11	0.54	0.10
Assam	14546	34	10	16	17	5	7	8	6.69	2.05
Bihar	15222	313	4	4	6	2	3	3	7.14	1.91
Chandigarh	4	4	2	2	2	2	2	2	11.18	10.28
Chhattishgarh	4166	6692	15	14	14	10	11	11	2.74	1.24
Dadra & Nagar Haveli	87	10	8	10	11	6	7	7	5.89	2.32
Daman & Diu	2	2	4	3	4	4	3	4	5.90	3.44
Delhi	91	48	2	3	3	2	2	2	27.28	15.43
Goa	3	0	7	7	7	4	4	5	3.45	1.32
Gujarat	2181	535	7	7	7	7	8	8	1.96	1.34
Haryana	547	406	4	5	5	3	4	5	3.00	1.86
Himachalpradesh	354	1215	20	21	22	13	14	15	2.32	1.02
Jammu & Kashmir	3676	129	17	19	19	11	12	13	0.92	0.41
Jharkhand	14956	295	10	11	12	4	5	6	5.11	1.65
Karnataka	2892	184	10	10	11	8	8	8	2.90	1.44
Kerala	47	13	3	4	4	3	3	4	2.62	1.47
Lakshadweep	1	2	4	3	4	4	3	5	9.06	6.58
Madhyapradesh	3040	4814	13	13	13	8	8	8	3.31	1.26
Maharashtra	1369	505	6	7	7	6	7	7	2.32	1.50
Manipur	42	11	14	15	16	8	9	9	1.71	0.65
Meghalaya	228	104	25	30	35	11	13	16	3.86	1.20
Mizoram	241	180	16	19	20	17	19	20	0.89	0.60
Nagaland	51	19	9	10	10	6	6	7	1.30	0.56
Orrissa	4549	355	12	12	13	7	7	8	3.11	1.23
Puducherry	11	0	5	5	6	4	5	6	13.25	8.01
Punjab	161	120	7	7	6	4	5	4	2.88	1.31

Rajasthan	12477	1259	9	9	13	8	9	10	2.84	1.34
Sikkim	46	1	17	17	20	8	9	9	1.61	0.48
Tamilnadu	2339	800	9	9	9	5	5	6	3.72	1.42
Tripura	735	15	9	9	11	7	7	8	3.65	1.67
Uttarpradesh	14239	17062	6	6	6	3	3	4	5.69	2.17
Uttrakhand	1146	827	14	14	16	8	9	10	2.94	1.11
West Bengal	697	30	6	6	7	2	2	2	6.85	1.22
All States	109528	39726	8	8	9	5	6	6	3.22	1.34

Source : Elementary Education in India : State Report Cards 2006-07, FLASH STATISTICS, DISE 2007-08
Note : PS–Primary School, UPS–Upper Primary School

TABLE : 2

Availability of Some Common and Key Facilities Meant For Girls

STATE/UT	% of schools having drinking water facilities in primary schools	% of schools having girls' toilet in school All schools			%of schools having girls' toilet in school primary schools	% of schools having boundary wall All schools	% of schools with female teacher all schools
	2007-08	2005-06	2006-07	2007-08	2007-08	2007-08	2007-08
A&N Islands	98.49	63.76	63.43	73.82	65.86	47.63	85.79
Andhrapradesh	87.20	40.47	42.53	46.75	34.79	52.60	78.11
Arunachal Pradesh	60.40	11.69	12.16	11.90	5.11	27.07	83.84
Assam	60.00	9.58	10.02	10.54	6.80	28.33	71.43
Bihar	75.20	11.78	16.21	21.62	15.30	28.08	79.11
Chandigarh	100.00	89.19	93.82	94.89	78.57	100.00	100.00
Chhattishgarh	88.46	9.81	13.33	19.95	14.46	41.70	65.46
Dadra & Nagar Haveli	93.22	28.07	25.72	25.33	13.56	42.11	84.87
Daman & Diu	88.24	47.52	41.86	61.22	56.86	88.78	97.96
Delhi	99.35	87.82	89.01	74.15	76.73	98.67	93.97
Goa	95.36	40.74	42.32	45.38	28.92	62.74	97.60
Gujarat	79.98	50.35	61.41	65.26	46.97	80.43	83.39
Haryana	96.21	70.66	76.19	87.32	82.75	92.80	77.93
Himachalpradesh	93.98	29.73	36.57	38.72	28.26	28.70	72.43
Jammu & Kashmir	69.41	17.32	20.03	21.99	8.35	33.58	70.84
Jharkhand	61.97	11.64	15.46	20.71	11.99	23.45	54.63
Karnataka	69.62	42.58	46.44	47.16	34.79	55.62	80.18
Kerala	96.69	71.50	76.89	78.99	69.75	70.59	99.51
Lakshadweep	100.00	50.00	60.00	62.16	37.50	40.54	94.59

Madhyapradesh	91.28	21.42	26.43	46.98	40.92	46.23	65.26
Maharashtra	81.81	47.52	53.01	60.02	42.33	59.59	69.72
Manipur	72.89	15.72	17.86	18.03	3.98	33.03	79.41
Meghalaya	48.40	7.71	8.76	10.20	6.48	17.84	80.25
Mizoram	77.05	16.86	21.32	23.50	18.45	30.69	80.78
Nagaland	68.64	21.28	30.94	37.02	24.64	75.15	84.34
Orrissa	83.46	12.40	27.97	28.04	21.31	59.56	63.88
Puducherry	97.71	80.03	84.88	86.20	77.78	85.49	95.73
Punjab	97.24	69.96	80.88	86.09	84.00	91.20	89.97
Rajasthan	82.15	34.59	41.30	79.32	69.54	63.56	65.93
Sikkim	78.61	34.46	36.22	42.26	31.47	25.74	88.96
Tamilnadu	100.00	55.10	60.15	62.33	52.24	62.55	93.50
Tripura	72.42	18.04	21.12	22.58	11.47	15.77	52.76
Uttarpradesh	98.67	69.41	78.20	82.36	81.05	46.62	73.54
Uttrakhand	87.58	41.58	51.69	52.13	47.75	70.91	72.54
West Bengal	78.74	30.56	31.47	35.13	28.59	41.44	68.46
All States	84.18	37.42	42.58	50.55	41.95	50.22	72.88

Source : Elementary Education in India : State Report Cards 2006-07, FLASH STATISTICS, DISE 2007-08

TABLE : 3

Girls' Enrolment Vis A Vis Boys' Enrolment And GPI

STATE/UT	% of girls enrolment						Gender Parity Index (GPI)	
	I-V			VI-VIII			I-V	VI-VIII
	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08	2007-08	2007-08
A&N Islands	49.12	49.08	48.76	46.94	47.58	47.50	0.95	0.90
Andhrapradesh	49.37	49.29	49.26	47.78	48.20	48.57	0.97	0.94
Arunachal Pradesh	47.41	47.66	47.91	46.72	47.15	47.20	0.92	0.89
Assam	49.28	49.27	49.35	48.82	49.40	50.14	0.97	1.01
Bihar	44.36	45.89	46.56	38.87	41.66	43.04	0.87	0.76
Chandigarh	45.48	44.58	44.72	46.38	45.19	44.63	0.81	0.81
Chhattishgarh	48.61	48.88	48.88	46.09	47.29	47.99	0.96	0.92
Dadra & Nagar Haveli	46.96	47.65	47.68	40.73	41.62	43.03	0.91	0.76
Daman & Diu	46.30	47.88	46.73	46.13	47.68	44.23	0.88	0.79
Delhi	47.05	46.73	46.92	46.80	46.82	46.08	0.88	0.85
Goa	47.36	48.01	48.46	46.95	46.66	45.92	0.94	0.85
Gujarat	46.97	46.81	46.70	44.16	44.68	45.31	0.88	0.83
Haryana	47.36	47.31	46.06	48.14	48.18	46.63	0.85	0.87

Himachalpradesh	47.62	47.29	47.30	47.38	47.16	47.24	0.90	0.90
Jammu & Kashmir	45.95	46.15	46.47	44.71	44.81	45.02	0.87	0.82
Jharkhand	47.50	48.59	49.02	44.08	45.24	46.39	0.96	0.87
Karnataka	48.61	48.40	48.44	48.11	47.96	48.28	0.94	0.93
Kerala	49.40	49.46	49.62	48.25	48.25	48.93	0.98	0.96
Lakshadweep	47.75	47.94	49.27	42.41	49.92	46.73	0.97	0.88
Madhyapradesh	48.85	48.75	48.91	44.22	45.03	45.71	0.96	0.84
Maharashtra	47.48	47.31	47.13	46.80	47.07	46.81	0.89	0.88
Manipur	49.65	49.84	49.69	49.19	49.33	49.00	0.99	0.96
Meghalaya	50.44	50.35	50.18	52.03	52.44	52.37	1.01	1.10
Mizoram	48.51	48.22	48.62	48.98	48.83	49.09	0.95	0.96
Nagaland	49.00	49.07	49.01	49.47	48.78	48.67	0.96	0.95
Orrissa	48.17	47.64	48.83	46.17	46.39	47.58	0.95	0.91
Puducherry	51.60	48.42	49.58	51.21	47.83	49.00	0.98	0.96
Punjab	46.34	45.87	45.97	46.72	46.05	46.27	0.85	0.86
Rajasthan	46.79	46.78	46.66	38.20	39.88	40.84	0.87	0.69
Sikkim	49.69	49.64	49.45	53.11	53.10	54.07	0.98	1.18
Tamilnadu	48.28	48.39	48.43	48.05	48.14	48.07	0.94	0.93
Tripura	47.67	47.85	48.33	48.74	48.78	49.05	0.94	0.96
Uttarpradesh	47.77	48.86	49.21	45.31	47.29	48.52	0.97	0.94
Uttrakhand	49.49	48.84	48.79	48.76	48.56	48.83	0.95	0.95
West Bengal	49.55	49.30	49.09	48.97	49.56	49.62	0.96	0.98
All States	47.79	48.09	48.22	45.80	46.51	46.99	0.93	0.89

Source : Elementary Education in India : State Report Cards 2006-07, FLASH STATISTICS, DISE 2007-08

TABLE : 4

Performance of Girls vis a vis Boys :

STATE/UT	Transition Rate from Primary level to Upper Primary level (2007-08)			Average Drop Out rate at Primary level (2007-08)		
	All	Boys	Girls	All	Boys	Girls
A&N Islands	—	—	—	—	—	—
Andhrapradesh	90.46	91.55	89.35	6.88	7.17	6.58
Arunachal Pradesh	—	—	98.63	14.18	14.54	13.79
Assam	93.44	92.43	94.46	13.51	14.27	12.72
Bihar	62.92	63.47	62.22	13.79	13.43	14.22
Chandigarh	97.43	98.57	95.99	29.49	33.36	24.67
Chhattishgarh	89.39	89.65	89.11	7.35	7.24	7.46
Dadra & Nagar Haveli	90.30	93.63	86.46	—	—	—

Daman & Diu	77.59	79.32	75.66	5.43	4.59	6.36
Delhi	—	—	—	—	—	—
Goa	79.22	78.05	80.65	13.18	12.25	14.18
Gujarat	90.49	91.92	88.87	4.20	4.03	4.39
Haryana	—	—	—	4.40	4.36	4.45
Himachalpradesh	92.58	93.54	91.50	2.62	2.55	2.69
Jammu & Kashmir	93.69	94.16	93.12	1,25	1.31	1.19
Jharkhand	77.03	75.54	78.80	12.82	12.87	12.77
Karnataka	91.91	91.84	91.98	3.39	3.66	3.11
Kerala	—	—	—	—	—	—
Lakshadweep	—	—	—	—	—	—
Madhyapradesh	67.95	69.03	66.76	8.57	8.83	8.29
Maharashtra	93.27	94.77	91.61	3.36	3.13	3.62
Manipur	84.02	84.74	83.29	19.99	19.66	20.36
Meghalaya	82.82	80.77	84.82	20.76	21.44	20.09
Mizoram	—	99.15	—	8.02	8.95	7.02
Nagaland	81.99	82.68	81.28	24.30	24.08	24.54
Orrissa	—	—	—	—	—	—
Puducherry	—	97.43	—	2.39	5.05	—
Punjab	83.98	86.96	80.61	5.45	5.36	5.56
Rajasthan	77.70	84.01	70.21	15.39	14.53	16.37
Sikkim	77.52	72.83	81,82	5.17	6.67	3.66
Tamilnadu	97.20	98.09	96.25	1.73	1.74	1.72
Tripura	84.30	83.46	85.21	11.66	12.58	10.66
Uttapradesh	62.75	62.40	63.11	16.22	17.41	14.98
Uttarkhand	—	—	—	6.88	7.43	6.31
West Bengal	79.50	80.18	78.82	9.41	9.75	9.07
All States	81.13	81.89	80.30	9.36	9.63	9.08

Source : Elementary Education in India : State Report Cards 2006-07, FLASH STATISTICS, DISE 2007-08

TABLE : 5

Examination Results (2005-06)

STATE/UT	Primary class IV-V				Upper Primary VII-VIII			
	Boys passed	Boys passed with 60% and above	Girls passed	Girls passed with 60% and above	Boys passed	Boys passed with 60% and above	Girls passed	Girls passed with 60% and above
A&N Islands	98.96	52.49	99.35	58.52	91.31	20.57	92.90	25.14
Andhrapradesh	98.19	68.55	98.21	67.57	96.73	65.94	96.65	66.85
Arunachal Pradesh	82.18	20.67	82.40	19.77	82.08	16.16	80.73	15.91
Assam	96.59	27.17	96.83	25.70	94.14	19.50	94.37	18.63
Bihar	96.25	37.24	95.53	37.55	97.08	22.03	96.99	23.77
Chandigarh	94.83	55.24	96.05	59.32	87.49	49.46	88.51	54.61
Chhattishgarh	90.18	46.07	90.28	45.87	72.18	22.66	71.55	22.38
Dadra & Nagar Haveli	92.85	56.41	93.72	55.12	97.46	44.69	97.99	51.62
Daman & Diu	85.18	35.55	90.51	44.74	86.86	36.76	89.26	51.12
Delhi	96.72	54.89	97.51	63.29	77.69	34.45	77.92	33.07
Goa	90.48	50.90	92.21	55.86	84.60	22.50	89.32	30.24
Gujarat	92.10	55.64	93.67	57.88	95.80	60.96	95.23	64.62
Haryana	87.53	35.91	88.56	36.87	66.35	26.57	63.63	25.05
Himachalpradesh	96.86	52.18	97.20	55.77	81.78	23.86	81.82	26.24
Jammu & Kashmir	97.40	19.90	97.31	49.95	86.39	33.29	87.94	33.91
Jharkhand	93.26	28.61	93.15	27.41	95.71	23.83	94.73	23.42
Karnataka	99.02	65.16	98.69	65.83	99.16	64.86	98.87	66.56
Kerala	93.68	54.90	95.43	58.34	89.06	34.67	92.02	40.07
Lakshadweep	96.50	37.61	97.59	40.96	95.94	60.36	94.11	58.17
Madhyapradesh	75.39	21.31	73.24	20.48	62.67	19.10	62.40	20.10
Maharashtra	96.50	54.38	95.87	56.05	91.63	37.53	92.40	40.47
Manipur	95.18	24.86	94.94	24.09	95.23	28.81	94.90	26.65
Meghalaya	86.80	21.25	87.57	22.94	85.26	20.87	86.22	21.27
Mizoram	92.96	22.19	93.89	24.62	90.61	13.92	91.99	15.47
Nagaland	85.90	22.98	86.57	23.02	88.60	22.69	88.48	23.42
Orrissa	106.10	14.89	100.00	14.00	100.00	10.85	100.00	10.11
Puducherry	94.81	52.13	97.26	54.73	89.25	36.67	94.09	40.81
Punjab	93.21	26.13	93.78	28.52	62.08	21.58	66.88	24.07
Rajasthan	97.54	53.47	97.52	49.18	83.02	60.35	82.58	59.87
Sikkim	73.42	21.98	73.47	19.07	74.57	11.59	69.11	10.42
Tamilnadu	99.06	65.02	99.27	69.97	95.76	41.08	97.09	46.83
Tripura	90.56	13.64	89.65	14.14	84.41	11.19	84.41	10.35
Uttarpradesh	96.71	37.77	96.63	35.74	96.44	36.94	96.30	38.46
Uttrakhand	96.51	38.20	96.39	35.28	92.88	28.08	94.01	26.30
West Bengal	91.62	16.08	91.97	44.77	79.51	19.59	77.33	16.73
All States	94.80	44.96	94.89	45.12	88.44	38.83	88.84	40.06

Source : Elementary Education in India : State Report Cards 2006-07, FLASH STATISTICS, DISE 2007-08

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The Role of Zakat in Islamic Accounting and Finance : An Overview

Pranam Dhar and Jafor Ali Akhan***

ABSTRACT : Zakat is an important form of religiously- mandated charity under Islam. It is considered to be third pillar of Islam. Giving of Zakat is important for Muslims, as this leads to purification of their wealth from all sin. This paper examines its impact on social justice and poverty eradication of the society. Each Muslim calculates his or her own Zakat individually. For most purposes this involves the payment each year of two and a half percent of one's capital, after the needs of the family have been met. One can donate additional amount as an act of voluntary charity but Zakat is fundamental to every Muslim. Zakat is the Islamic contribution to social justice: those who have to give charity so that those who don't have enough money can share in the benefit of their neighbor's prosperity. This is the Islamic way to remove greed and envy and to purify one's soul based on good intentions. This is the institution of Zakat (charity) in Islam. The institution of zakat serves to eradicate poverty in the community and uphold the light of Islam.

Allah says "whatever is paid as zakat for the sake of Allah shall be rewarded in manifolds".

Key Words: *Shariat, Riba, Zakat, Islamic Finance, Social Tax.*

1. INTRODUCTION

Muslim countries are now attempting to align their economies to accord with the tenets of Islam. Islam is the world's second largest religion. Under Islam, individuals have five fundamental duties, called

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Pillars of the Faith. Zakat is considered to be the third pillar of Islam. Giving of Zakat is important for Muslims, as this leads to purification of their wealth from all sin. An individual's wealth and possessions are purified by setting aside a proportion for those in need. So the act of giving zakat means purifying one's wealth to gain Allah's blessing to make it grow in goodness. According to the holy Quran, a person who refuses to pay zakat or denies that it is compulsory can attract severe condemnation and judgments.

All we know that many workers have lost their jobs and many more are still jobless. The situation is made worse as many of our graduates have not been able to secure gainful employment after obtaining desired degrees. We are faced with increasingly more brothers and sisters in need, those who bear the burden of debt, children whose education are ended prematurely because of their parent's financial difficulties and families whose daily living are affected.

Living in poverty and distress is an insult to the teachings of Islam. In Islam, poverty is an enemy that must be eradicated and prevented in order to preserve the sanctity of Islam and to uphold the dignity of the ummah. Poverty has adverse repercussions on mankind. It weakens society. Our prophet Rasullulah has mentioned poverty in the following hadis - *"Hunger nearly leads to infidelity and all sorts of wrong doings."*

Thus, Islam rejects all forms of poverty, in line with Allah's command that zakat is the third pillar of Islam that makes it compulsory for all. His able servants give zakat on their wealth.

Allah has taught us an economic system through the zakat and its importance is put on par with zakat. Zakat is important in the relationship between an individual and his community. Zakat has great significance in the community's efforts to protect itself and it is Allah's guaranteed cure to our economic and social problems. It is clear that zakat serves to eradicate poverty in the community and uphold the light of Islam. Without a complete systematic institution of zakat, our community will be disabled. As such, the collection of zakat brings tremendous benefits to those who give and those who receive.

With this in the backdrop, the present paper makes an attempt to highlight the fact the zakat is a way of social justice and is able to harness the beneficiaries of it to become productive contributors to the development of the community's life. The paper is based on the principle that every thing belongs to Allah (God), and wealth is therefore held by human beings is trust only. The paper is also based on the Holy Quran and existing literature on the subject. The paper is divided into six sections. First section deals with introduction. Conceptual aspects of zakat is provided in section two. Section three narrates an outline regarding different types of zakat. Significance of zakat is highlighted in section four. Section five gives an idea about accountability of zakat. Last section offers conclusion.

2. CONCEPT OF ZAKAT

Zakat is one of the main five pillars in Islam. Zakat is monitory devotion and based on the idea that all things belong to Allah (God), and that wealth is therefore positioned in the disposal of mankind as a thrust. Zakat can be defined as 'purification' and 'growth'. The passions of human beings are sanctified through earmarking a proportion of the wealth for the distressed and needies as mandated in the holy Qur'an. So the act of giving zakat means purifying one's wealth to gain Allah's blessing to make it grow in goodness. Zakat does not only purify the property, but also purifies the giver's heart from selfishness and greed. Every Muslim is expected to pay the zakat. The recipient of zakat also purifies their heart from envy, jealousy, hatred and uneasiness as it will foster instead goodwill, gratefulness and warm wishes for the contributors.

In regards society as a whole, zakat signifies a major economic means for establishing a better balanced, social justice and leading the Muslim society to prosperity and security. Zakat is obligatory for every adult, mentally stable, free and financially able Muslim male and female.

Extract from Holy Qur'an on Zakat:
"The alms are only for the poor and the needy, and those who collect them, and those whose hearts are to be reconciled, and to free the captives and the debtors, and for the cause of Allah, and (for) the wayfarers; a duty imposed by Allah. Allah is knower, Wise."
- surah at-Taubah (9) verse 60.

Most important of these was zakat - an annual tax levied on wealth above some threshold, the proceeds of which distributed to the needy.

2.1. Obligations of Zakat

According to Islamic law, a person who fulfilled below criteria holds the obligation to pay Zakat:

- A Muslim,
- Adult, sane, free (not a slave).
- He or she must posses a certain minimum amount of extra wealth (called nisab),

2.2. Exemptions from Zakat

Zakat is not obligatory if the amount owned is less than this nisab, fully owned by the person in excess of personal use.

- The person should have had the minimum amount in possession for a complete lunar year (hawl).
- The wealth or profit should be of a productive nature, from which they can derive profit or benefit such as merchandise for business, gold, silver, livestock, etc.
- The minimum amount (or Nisab) should not be owed to someone, i.e., it should be free from debt.

2.3. People who are entitled to receive Zakat

Zakat is distributed among 8 main categories of Asnaf (beneficiaries) of people, namely:

- Fakir - One who has neither material possessions nor means of livelihood.
- Miskin - One with insufficient means of livelihood to meet basic needs.
- Amil - One who is appointed to collect and do the management of zakat.
- Muallaf - One who converts to Islam with purpose to keep their faith
- Riqab - One who wants to free himself from bondage or the shackles of slavery.
- Gharmin - One who is in debt (money borrowed to meet basic, halal expenditure).
- Fisabillillah - One who fights for the cause of Allah.
- Ibnus Sabil - Travelers who are in the journey, provided that the destinations of the journey are not against the syara'.

3. DIFFERENT TYPES OF ZAKAT :

Zakat is divided into two main categories that are :

(i) Zakat Fitrah

Zakat Fitrah is an obligatory upon all Muslims which must be paid at the ending of fastings of Ramadan before observing the eid prayer. The required amount of zakat is approximately 3 kg of staple food in the relevant country or an amount of money that is equivalent to the price of the food,.

(ii) Zakat Al-Mal or Zakat for Wealth and Possessions

The zakat on wealth and possessions are classified into :

- Zakat for Income and Salary
- Zakat for Business,
- Zakat for Savings,
- Zakat for Stocks,
- Zakat for Gold and Silver,
- Zakat for Agriculture and Poultry.

Here we are attempting to give some basic calculations for zakat on wealth and possessions. The calculation of nisab i.e. ceiling limit of income and wealth is very difficult as it varies from country to country but the generally accepted rate of zakat and nisab are mentioned in this paper.

3.1. Zakat for Income and Salary

Zakat for salary and income is compulsory of all kind of income or pay as return to the job or services done by an individual. The income includes salary, bonus, dividend, royalties, allowances, commissions, pensions, compensations and other form of earnings.

There are two methods of calculations for zakat on salary and income :

(i) Annual Gross Income x 2.5% (if the amount exceeds nisab)

(ii) Income that is applicable for zakat x2.5%]

Annual Gross Income	**
Less: Annual Expenses	**
Income applicable for zakat (if exceeds nisab)	**
Zakat @2.5% on income applicable for zakat	**

Example of Zakat for Income and Salary :

Mr. Z.A. Hossain receives the following emoluments during the financial year 2009-2010.

Basic pay	Rs.	300000
Dearness allowance	Rs.	150000
Commission	Rs.	40000
Entertainment allowance	Rs.	10000

His basic annual expenses are:

Personal expenses	Rs.	80000
Expenses for spouse	Rs.	45000
Children (@Rs.25000 p.a. for two children)	Rs.	50000
Taxations and other obligations	Rs.	25000

Determine the zakat amount for Mr. Hossain in the financial year 2009-2010. Rate of zakat is 2.5%.

Computation of Zakat amount of Mr.Z.A.Hossain for the financial year 2009-2010.

Item	Amount (Rs.)	Amount(Rs.)
Annual Sources of Income		
Basic Salary	300000	
Dearness allowance	150000	
Commission	40000	
Entertainment allowance	10000	500000
Annual basic expenses		
Personal expenses	80000	
Expenses for spouse	45000	
Children's expenses (2x25000)	50000	
Taxation paid	25000	200000
Income that is applicable tor zakat (exceeds nisab)		300000
Zakat amount (Rs. 300000x2.5%)		**Rs.7500**

Note : (i) There is no standard for calculation ot nisab i.e. the amount ot basic expenses tor the family.

(ii) Payment of zakat in India is purely voluntarily as individuals are liable to pay taxes to the concerned authorities.

(iii) Rate of zakat is uniformly 2.5% all over the World.

(iv) Some Islamic countries have collected zakat and expenses for their poverty alleviation programme.

3.2. Zakat for Business

Zakat for business is obligatory for wealth generated firm business inclusive all kind of business including sole trader, private limited, limited company, partnership business, cooperatives etc.

Rate for Zakat

2.5% on the Business wealth and possessions according to nisab.

Method for calculation

Method-I Working Capital [Current Assets - Current Liabilities] x Shared owned by Muslim x 2.5%. The method is used for companies that owned stated current assets and current liabilities e.g. private ltd., and cooperatives.

Method- II Working Capital [Owners Equity + Long term Liabilities - Fixed Assets - Semi Fixed Assets] x % of share owned by Muslim x 2.5%.

The method is used for financial institutions and Islamic banking which has no specific current assets and current liabilities.

3.3. Zakat for Savings

The savings is considered obligatory for zakat once it reached nisab of one year and the amount exceed the nisab which equivalent to the current value of 85 gram of gold. The rate is 2.5% from the amount of savings.

For the savings in the account, if a person's savings has reached one year length of time, where its lowest balance (minus the interest during the time of savings) exceed nisab, then the person is obligated to pay for the zakat for savings.

3.4. Zakat for Gold and Silver

The gold that is used for women accessories on their bodies, zakat is not obligatory if the value or weight of the gold does not exceed certain limit (urf). The urf varies from country to country. If the gold is placed as savings or not used as accessories, the gold is obligatory for zakat @2.5% if it exceeds the nisab of 85 grams.

For silver, the amount to be obligatory for zakat is calculated based on the value of the silver regardless its condition whether the silver is used for accessories on body or at home or is placed as savings. Nisab for silver is **595 gram** or more.

3.5. Zakat for Shares

General guidance for zakat calculation is 2.5% on the lowest value of the whole shares or stocks that are owned for a year after deducting the amount of loan made for the purchase of the stocks (provided if the stocks are purchased by loan).

For the shares that the owner still owned until the end of haul, the zakat calculation is 2.5% based on the lowest cost / market price.

For the share that is under the process of sale and purchase for a whole year /haul, the calculation is 2.5% based on the selling value after purchasing cost deduction.

3.6. Zakat for Agriculture and Poultry

Zakat for agriculture is made on the agriculture produces that are the basic food for a country once it has reached the nisab and haul. In India, the citizen's basic food is rice, so the production of paddies becomes obligatory for zakat.

The rate or percentage of amount to be paid for zakat is determined by the Islamic Bodies per state where the agriculture product is produced.

Zakat for poultry is obligatory once it reached the term and conditions for the owners applicable for types of animals that are obligatory for zakat. The types of animals are goat, sheep, cow, buffalo and camel.

4. Significance of Zakat in Islamic Finance

Zakat is a tax that every Muslim, whose wealth exceeds a certain minimum limit called nisab. This is essentially a wealth tax and it ranks second in importance only to prayers as a feature of everyday witness to the Islamic faith. It is an integral, compulsory and inseparable part of the Islamic way of life, the non-observance of which is tantamount to the negation of the religion itself (Ashaari and Mohamed, 1989). Zakat covers the moral, social and economic spheres of Islamic finance (Mannan, 1986). In the moral sphere, zakat washes away the greed and acquisitiveness of the rich, whilst socially, it acts as a unique measure to abolish poverty from society as well as encouraging the rich to live up to their social responsibilities (Mannan, 1986). The Quran categorically states this.

And those in whose wealth are a recognized right. For the needy who asks and him who is prevented (for some reason from asking) (70:24-25).

From the economic point of view, zakat prevents the morbid accumulation of wealth in a few hands and allows it to be more widely distributed. Mannan (1986) argues that the payment of zakat should be voluntary and for genuine social motives because zakat payment is symbolic of the inner unity of religion and economics. However, zakat cannot be regarded as a favour that the givers do for their fellow Muslims.

The *Shari'a* specifies that only individuals are liable for zakat. It is the individual owners who are responsible for determining the amount that should be paid out as zakat.

Consequently Gambling and Karim (1991) contend that one of the major objectives of accounting in an Islamic society is to provide information to enable the individual to determine his zakaf liabilities. Another issue that has been the subject of considerable debate amongst Islamic jurists is whether or not a company is liable for zakat. This was resolved at the Zakat conference in Kuwait in 1985. The conference agreed that in the case of a company considered as a separate legal entity, zakat should be determined based on the company's net current assets as if the company was subject to zakat. The zakat so determined would then be divided between the owners for the purposes of each owner satisfying his religious obligation by himself. However, in the following four cases, Islamic jurists have come to a consensus that a company would be required to satisfy the zakat obligation itself either as an entity or on behalf of its owners under the following conditions :

- when the law requires the company to satisfy the zakat obligations as an entity.
- when the company is required by its charter or by-laws to satisfy the zakat obligation as an entity

- when the general assembly of shareholders passes a resolution requiring the company to satisfy the *zakat* obligation as an entity,
- when individual owners authorize the company to act as their agent satisfying the zakat obligation (SFAC 1, p29).

Although voluntarism is encouraged in Islam, if zakat is not paid by an individual, the state has the power to enforce payment sc that social justice prevails. Islam, as one may recall, gives preference to the rights of the community over the individual. The government has thus to play a major role in an Islamic society. If the general interest of society is unduly harmed, the state has the authority to interfere (El-Ashker, 1987; Chapra, 1992).

According to Holy Qur'an the importance of zakat can be summarized in the following points:

- Zakat is test from Allah swt upon the wealth given to us.
- Zakat is obligatory on Ummahs (followers) of all prophets.
- Zakat indicates the level of faith of a Muslim.
- It is foundations of Islamic fraternity.
- It also acts as sign of believers in 'salah[1] and 'Zakat'.['salah[1] is another pillar of Islam].
- It is the criteria for Allah's help.
- The defaulters of zakat shall suffer the dooms of the day of resurrection.

5. ACCOUNTABILITY OF ZAKAT

Zakat can be given directly to the beneficiary or it can be handed over to an institution. It is emphasized that it should only be given to those who have the right to receive it. As per the Pillars of Islam "All Muslims agree that it was their duty to give zakat to the Imam after his (the Messenger of God's) death. For a time they (the commonalty) acted thus, until they saw how zakat was seized and appropriated by their unjust Imams. Thus although they accepted them as their Imams, they withheld from them the zakat of their properties, as far as was feasible."

Thus, questions arise regarding uses and misuses of zakat fund. However, this was solved by the qadis (Judges) in the following manner:

"Now it is not the responsibility of the people with what they have been obligated to oversee that the zakat is distributed in its places, because this obligation ceases after the payments have been made."

Due to the manner of the collection and spending, zakat became institutionalized from early times of the caliphates. Zakat may be treated as the taxes collected by modern Governments for social welfare. In the modern Muslim world, zakat has been left to the individuals. However, in some Islamic countries, where the shariah is strictly maintained, zakat is now managed by the Government.

6. CONCLUSION

It has been observed the zakat is an important component of Islam which is established by the holy Qur'an itself. Thus, to be a good Muslim, one must accompanies the observance of his or her salat with the payment of zakat. The Islamic social order is based on the principles of equality, justice, and brotherhood and the concepts of freedom and responsibility.

It is argued that financial reports should enable Muslims to determine zakat liability and ultimately achieving socio-economic justice. Given this, and the emphasis on full disclosure, it is suggested that the current value balance sheet should be included as part of the reporting requirements of firms operating in an Islamic economy. Further, the financial accounting framework derived from the Sharia should be considered as part of the social and economic system of Islam which ultimately leads to the goal of worshipping God in the way He has prescribed.

It is crystal clear that zakat is mandatory upon all Muslims and that it is a mechanism to purify his or her wealth of which any contempt from it shall attract punishment. The benefit is immense as the entire society shall enjoy it and the public shall free from crime and insanity. Allah swt says"... whatever is paid as zakat for the sake of Allah shall be rewarded in manifolds"

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Trends in performance and profitability of Co-operative Banks : A Case Study of Vidyasagar Central Cooperative Bank Limited, Midnapore, West Bengal

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ABSTRACT : The role of the bank in the economic development of a country is sizable and significant. The co-operative banks perform the basic functions of banking. These are basically rural oriented, these are financing agricultural and allied activities and proceed on the principle of co-operation. The studied bank namely, Vidyasagar Central Cooperative Bank headquartered in Midnapore has been serving the people of agricultural, non-agricultural and individual sectors diligently for the development of their socio-economic status, through 36 Branches and 2 Pay Offices. Primary data has been collected and analyzed for 5 consecutive years starting from the year 2003-04 to the year 2007-08. The analysis of the bank's financial performance shows that the bank is facing the problem of lower profitability. This lack of profitability is attributable to different reasons. Notable amongst these are slower rate in the increase in bank 's spread ratio in comparison with its burden ratio. This also hints at the bank's inefficiency in the matter of capturing new and different channels of banking businesses. In the regime of interest rate cut, the bank with its normal banking operations is bound to suffer in terms of its profitability. The presence of huge non-performing assets is also making the profitability conditions of the bank even bleaker.

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1. INTRODUCTION

1.1. BANKING SYSTEM IN INDIA : A GENERAL OVERVIEW

The role the bank in the economic development of a country is sizable and significant. Economic history indicates that banks have played a stellar role in supporting economic development of a country. A strong banking system is not only benefiting for the domestic economic system to grow and prosper but also it can be an effective instrument in fulfilling international ambitions and business expansion. Economies like US and Japan have shown that.

There are several indicators to show the importance of banking system in the world of finance. Banks assets anywhere account for up to 50 percent of world capital market. Again, the size of the activity of banks is more than the size of the economy in several countries experiencing rapid economic growth. For instance the world as whole, bank assets to gross domestic product is as high as 132 percent. In some regions such as in the EU, it is as high as 212 percent. Several mature economies have very high bank assets to GDP ratio and these include UK (262 percent), France (255 percent), Japan (168 percent) and Canada (152 percent).

The experience of India in this regard is very subdued. The domestic credit provided by the banking sector in India as a percentage of the gross domestic product has risen only by 10 percentage points from 52 percent in 1990 to 62 percent in 2004. But, different estimates suggest that Indian banks should be able to grow at a rate of around 20 percent a year for the next decade not only for its own growth but also for becoming relevant for financing the economy that is aiming at double digit growth.

The types of banks operating in Indian context may be broadly classified into the following groups:

1.1.1. COMMERCIAL BANKS

Among the banking institutions in the organized sector, the commercial banks are the oldest institutions having a wide network of branches, commanding utmost public confidence and having the lion's share in the total banking operations. Initially, they were set up as corporate bodies with share- holdings by private individuals, but subsequently there has been a drift towards State ownership and control. Today 27 banks constitute the strong public sector in Indian commercial banking. In addition to these there are branches of several foreign commercial banks operating in the country.

1.1.2. CO-OPERATIVE BANKS

The co-operative banks also perform the basic functions of banking but differ from the commercial banks in many respects as follows:

1. The commercial banks have been organized either as joint stock companies under the companies act ,1956,or as public corporations under separate Acts of parliament. The cooperative banks have been established under the co-operative societies Acts of different states.

2. The co-operative banks have a three-tier set up. The state co-operative Bank is the apex institution in a state, while central/District co-operative banks function at the district level and primary credit societies work at the village level. The commercial banks are organized on a unitary basis.

3. Only the State co- op banks have access to the RBI, whereas every commercial bank, which is a scheduled bank, is entitled to avail of the refinance facilities from the RBI.

4. Co- Op banks function within a given area. Their operations are restricted to a particular State/Apex Bank, particular district in case of a district co-op bank and to a local area in case of a society. Operations of commercial banks are not subject to such geographical limitation.

5. The Co-Op banks have been basically rural oriented and have been financing agricultural and allied activities. On the other hand, main thrust of commercial banking is to finance industries.

6. Co-Op banks proceed on the principle of co-operation. As such these are granted accommodation at concessional rate by the RBI.

1.1.3. REGIONAL RURAL BANKS

The government of India set up **Regional Rural Banks (RRBs)** on October 2, 1975. The banks provide credit to the weaker sections of the rural areas, particularly the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs.

Initially, five RRBs were set up on October 2, 1975 which were sponsored by Syndicate Bank, State Bank of India, Punjab National Bank, United Commercial Bank and United Bank of India. The total authorised capital was fixed at Rs. 1 crore which has since been raised to Rs. 5 Crore.

There are several concessions enjoyed by the RRBs. These are refinancing facilities from NABARD at lower interest rates, lower statutory liquidity ratio, lower rate of interest on loans taken from sponsoring banks, managerial and staff assistance from the sponsoring bank and reimbursement of the expenses on staff training.

The RRBs are under the control of NABARD. NABRAD has the responsibility of laying down the policies for the RRBs, of overseeing their operations, providing refinance facilities, monitoring their performance and attending their problems.

1.1.4. LAND DEVELOPMENT BANKS

The long term credit needs of the agricultural sector are met by another type of co-operative institutions known as Land Development Banks. These banks are having two- tier set-up. At the State level, there are Central Land Development Banks and at the district or taluka level, there are Primary Land Development Banks.

1.2. BANKING SCENARIO IN THE PASCHIM MEDINIPUR DISTRICT WITH A SPECIAL REFERENCE TO CO-OPERATIVE BANKS

As at the end of March 2004, there are 2 Central Co-Op Banks, 3 PCARD Banks, serve the people of the District in co- operative folio. In addition to that there are 17 Commercial Banks and 1 RRB operating in the district. As many as 335 bank branches are operating in the district. Out of which 255 are of commercial banks, 37 are of RRB, 7 are of PCARD and 36 are of CCBs. Average number of staff per branch is 10 for commercial banks, 8 for CCBs, 7 for PCARDs and 5 for RRB. Average number of loan accounts per branch is 6079 for CCBs, 2784 for commercial banks, 2182 for PCARDs and 1406 for RRB. Total deposits are Rs. 213410 lakhs in commercial banks, Rs. 40157 lakhs in CCBs, Rs. 16243 lakhs in RRB and Rs. 230 lakhs in PCARDs. Total loan outstanding is Rs. 60772 lakhs in commercial banks, Rs. 24828 lakhs in CCBs, Rs. 7276 lakhs in RRB and Rs. 190 lakhs in PCARDs.

Thus, in terms of number of banks and number of branches operating in the district the share of co-operative banks is at a very low level. But in the matter of maintaining staff members these are very close to other categories of banks, especially in comparison with the commercial banks operating in the district. Again, in terms of average number of loan account per branch, the co-operative banks outweigh other categories of banks by quite a margin. Moreover, total deposits for the co-operative banks are much higher in comparison with that of the regional rural banks but much lower than that of commercial banks operating in the district. This picture is almost the same in case of outstanding loan.

1.3. THE BANK

The Co-operative Movement was introduced in India on 26th March, 1904 and the first Cooperative Societies' Act was passed to provide the financial facilities to the class of cultivators and others engaged in allied activities to make them free from the clutches of unscrupulous Mahajans and money lenders.

The said movement played an important and vital role within the undivided Bengal and since 1905 a number of Rural Co-operative Credit Societies were organized and those societies started investments of loans at a low rate of interest to the Agriculturists and Artisans etc. In tune with that two credit societies, namely Balarampur Rural Co-Op Credit Society Ltd and Khalar Rural Co-Op Credit Society Ltd, were formed in the then undivided Midnapore . district.

The movement created enthusiasm all over the state, which resulted in the establishment of—

Khelar Balarampur Central Co-op. Bank;	Tamluk Ghatal Central Co-op. Bank
Beliaberah Central Co-op. Bank Ltd.	Mugberia Central Co-op. Bank,
Midnapur Central Co -op. Bank Ltd.	Balageria Central Co-op. Bank.

The All India Rural Credit Survey Committee (1951-54) recommended in its report that there would be one Central Co-op Bank in each District. In line with the recommendation the Khelar Balarampur, Beliaberah and Midnapur Central Co-op Banks amalgamated on 6th February, 1965 with the name *"Midnapur Khelar Balarampur Beliaberah Central Co-Op Bank Ltd."* and on 18th October, 1975 the name of the Bank has been amended as "Vidyasagar Central Co-Operative Bank Ltd, Midnapore" in the memory of the exponent of Small Savings Movement, Pandit Iswar Chandra Vidyasagar.

The Bank has been serving the people of agricultural, non-agricultural and individual sectors diligently for the development of their socio-economic status, through 36 Branches and 2 Pay Offices including Two Evening Branches at Midnapore and Jhargram Town with very meager Staff strength. The head office of the bank is in Midnapore Town.

The bank is engaged not only in banking business but also in imparting knowledge in Co-Operation Management and Accounts etc,. In this direction, in 1996, the bank has set up a residential Co-operative Training Centre named, Sanchari at New Digha. Training and re-orientation programmes in the direction of Co - operative management are being organized on a regular basis for the employees of this Bank and Co-operative Societies and also for the various SHG Groups.

The Bank has been awarded NABARD's "Best Performance Award" for the 4th time in the year 2003-2004. Previously, the said prize was won in the years 1997-98 & 1999 -2000, 2000 - 2001. The selection of the Banks for the said performance award is based on certain identified quantitative as well as qualitative aspects. Apart form the quantitative progress in loans, deposits, recovery, etc, the leadership and other professional activities have been considered by them for this award.

1.4. OBJECTIVE OF THE STUDY

The study is conducted keeping in view the following objectives:

- To make an analysis of the performance of the bank depending upon some absolute measures and of the changing nature of such measures;
- To make an overall analysis of the performance and profitability of the bank through certain ratios commonly used for evaluation of performance and profitability of banks;
- To gain an insight into the change in pattern, if any, in the performance of the bank during the study period as measured by the selected performance indicators.

2. METHODOLOGY

2.1. LITERATURE REVIEW

Ramasastri and Samuel (2006) make a study to find the trends in important banking indicators for the 25-year period from 1980 to 2005. For the purpose of the study they take data from the balance sheets of the commercial banks. From the study they find that the number of banks in the foreign bank group and in the domestic private bank group is declining. They ascribe this fall in number of banks in these groups to the emerging consolidation process in this sector in the form of mergers and acquisitions.

Their study also shows that the declining trend in the credit deposit ratio is somewhat arrested in the recent years. They find a significant improvement in this aspect in the year 2005. They have also observed a shift in the composition of deposits. They find that the proportion of term deposit is increasing while the proportion of demand deposit is falling. The proportion of saving deposits remains constant at around 25% of the total deposits. The study also shows that advances secured by tangibles assets are increasing for all commercial banks.

Again, excepting foreign banks priority sector advances of scheduled commercial banks are found to have marginally declined. Bank-group wise investment shows that the investment in government and approved securities is reducing but it is still as high as 82.4% of the total investment in 2005. This shows that though because of reduction of SLR the banks investing a lesser amount in government and approved securities, banks still prefer to invest a large portion of their investment in these securities because of the risk free and assumed returns they get from these securities.

They also find that the incidence of NPAs in the banks is declining and the decline in NPAs is more evidenced across bank groups especially since 2003. Finally in the income composition they find that the interest income component in the total income is falling and the percentage of other income is increasing while in the expenditure side the percentage of interest expenses to total expenses is on the decline.

Kohli and Chawla (2006) make a study to find the trend in profitability of commercial banks. For the study they take a sample of four banks, two each from the public sector and the private sector. The study covers a period often years from 1995-96 to 2003-04.

They base their study on the trend analysis and ratio analysis through parameters such as income, expenditure, spread and burden. The study shows that on an average the performance of the private sector banks are better than the performance of the public sector banks. The study also shows that all the banks have registered significant growth in incomes, spread and net profit.

They also find that though spread in absolute terms is increasing, spread as a percentage of volume of business is decreasing for all the banks. Again, the profitability ratio is also on the decline for most of the banks during the period of study. Interest income, being the traditional source of income of all banks has been decreasing gradually for all the banks. However, the decline is found to be more pronounced in case of private sector banks.

2.2. DATA SOURCES

The study uses primary data collected from the audited annual accounts of the bank.

2.3. STUDY PERIOD

For the present study data are taken for a period of 5 consecutive years starting from the year 2003-04 to the year 2007-08.

2.5. VARIABLES UNDER STUDY

The first stage variables depicting absolute measures of bank's performance and used in this study are interest earned, interest paid, non-interest expenses, non-interest income, net profit, credit or advances, deposits, volume of business, NPAs. After that several ratios are developed using these first stage data. These ratios are interest earned ratio, interest paid ratio, spread ratio, burden ratio, profitability ratio, net interest margin, return on assets, return on net worth, credit-deposit ratio, NPAs to net advance ratio.

2.5.1. Interest earned ratio : It is calculated by dividing interest income by the volume of business. Interest income of banks consists of income from interest / discount on advances / bills, interest on investment and certain other interest income. This ratio indicates the rate at which bank earns income in course of pure banking business.

2.5.2. Interest paid ratio : This ratio is calculated by dividing the interest paid by banks by their volume of business. Interest expenses of a bank include interest on short-term loans, interest on long-term loans, interest on deposits and certain other interest expenses. This ratio indicates the rate at which banks incur expenditure by borrowing funds.

2.5.3. Spread ratio : This is the difference between the interest earned ratio and interest paid ratio. Naturally greater the ratio more will be the profitability of the bank controlling for burden ratio.

2.5.4. Burden ratio : This ratio is calculated by dividing the non-interest expenses net of non-interest income by the volume of business. A negative burden implies that non-interest income exceeds the non-interest expenses. Such negative burden ratio indicates that the bank is able to explore newer activities, has invested in infrastructure and is able of offer various innovative financial products that helps in developing fee-based income generating sources for banks.

2.5.5. Profitability ratio : This ratio is calculated as the difference between spread ratio and burden ratio. The key to profitability is to increase the spread or reduce the burden. In other words, greater the difference between the two the higher will be the profit.

2.5.6. Net interest margin : This ratio is calculated by dividing the spread (interest income minus interest expenses) by total assets of the bank. This ratio measures the excess income of bank's earning over its funding costs relative to its asset base. These assets mainly comprise of advances, investments, balances with the RBI and money at call and short notice. It basically measures the income that the bank earns from its core business of lending.

2.5.7. Credit-deposit ratio : This ratio is calculated through dividing the credits in different form given by the bank by the deposits in different forms received by the bank. It indicates the efficiency with which the bank utilizes its collection from customers in earning monies.

2.5.3. Spread ratio : This is the difference between the interest earned ratio and interest paid ratio. Naturally greater the ratio more will be the profitability of the bank controlling for burden ratio.

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2.5.7. Credit-deposit ratio : This ratio is calculated through dividing the credits in different form given by the bank by the deposits in different forms received by the bank. It indicates the efficiency with which the bank utilizes its collection from customers in earning monies for its customers and for itself as well. The greater the ratio the more will be the prospect for the bank to earn at a higher rate controlling for the incidence of nor-performing assets.

2.5.8. Return on assets : This ratio is calculated through dividing the net profit of the bank during a financial year by the total assets of the bank. This ratio indicates the efficiency with which the assets are being utilized for earning.

2.5.9. Return on net worth : This ratio is calculated through dividing the net profit of a bank earned during a year by the net worth of the bank. Net worth is the owners' fund. So, this ratio measures the efficiency with which the fund of the owners of the bank is utilized in getting income.

2.5.10. NPAs to net advances ratio : This ratio is calculated through dividing the non-performing assets by the amount of net advances by the bank. This ratio is also an important measure of profitability in the sense that the lower the incidence of non-performing assets in relation to the net advances the more will be scope that the assets of the bank is utilized in earning income and not lying idle and unutilized

3. ANALYSIS & FINDINGS

3.1. Performance measurement through absolute measures :

Table: 1 - Absolute performance measures of the bank

2003-04	2004-05	2005-06	2006-07	2007-08	I***	II	III	IV
INTEREST EARNED								
4966	4635	4547	4752	5691	–6.66	–1.90	4.51	19.76
INTEREST PAID								
3905	3690	3325	3244	3653	–5.51	–9.89	–2.44	12.61
VOLUME OF BUSINESS								
5433	4849	4623	4950	5935	–10.75	–4.66	7.07	19.90
NONINTEREST INCOMES								
4669	2141	7576	1984	2139	–54.14	253.85	–73.81	7.81
NONINTEREST EXPENSES								
9991	1056	1185	1610	2438	–89.43	12.22	35.86	51.43
CREDIT								
2590	2739	2789	3146	3656	5.75	1.82	12.80	16.21
DEPOSITS								
3855	3812	4016	4378	4916	–1.12	5.35	9.014	12.29
NET PROFIT								
5296	1027	1123	1377	1422	–80.61	9.35	22.62	3.27
TOTAL ASSETS								
5902	5979	6174	6523	7137	1.30	3.26	5.65	9.41
NET WORTH								
5448	5483	5548	5565	5714	0.64	1.19	0.31	2.68
NPA								
1673	2561	2824	3241	3690	53.08	10.27	14.77	13.85

*** Figures indicated under the column I, II, III, and IV shows the percentage change of the corresponding measure over the previous year's value of the measures.

From the above performance measurement table (Table 1) it is seen that the interest earned by the bank during the last five years does not follow any consistent path, though on the whole it has increased during the study period. The interest earned has witnessed a surge in the last year of the study. This is mainly due to formidable increase in loans and advances in that year as well as receipt of interest on advance income tax.

Interest paid by the bank which is main banking expenses, has also not shown a very consistent pattern. For most part of the study period such interest paid has decreased though in the closing year this has increased. On the whole the interest payment has decreased during our study period. The sudden increase in interest payment in the last year of the study is largely attributable to the interest rate revision by the controller of money market in the country, namely, the Reserve Bank of India.

It is also found that for the first half of the study the total business of the bank was on the decreasing path though thereafter the condition has changed and now the bank's business is on an increasing path. On the whole the bank's volume of business has increased only very moderately during the study period.

Non- Interest Income has shown a very inconsistent picture as well. In the middle year it has experienced a sudden spurt and at the end of the study it has somewhat stabilized at a very low level. Non-interest expenses has also come down considerably during the study period. Though during the closing phases of the study it shows increasing signs.

Credit given by the bank has increased on a very consistent basis during the entire study period. That increase becomes much more prominent during the closing phases of the study. Again, barring the initial year the deposit generated by the bank is on an increasing path. Though the magnitude of increase is not that much.

After getting a major beating in the year 2004-05 the net profit of the bank is recovering but this profit figure stands at not a very satisfactory level even at the close of the study period. The heavy downfall in the profitability of the bank is due to large salary increment for the working force of the bank in that year.

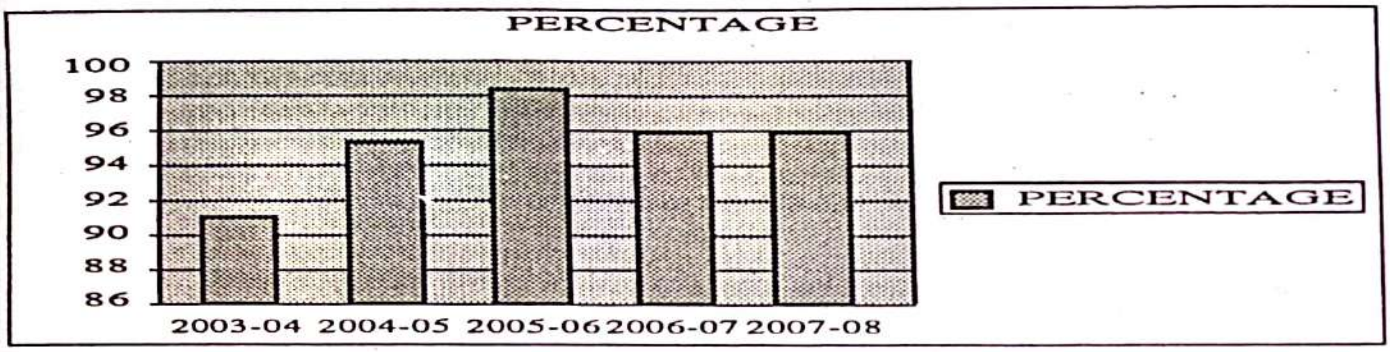
The total Assets and net worth of the bank has increased on a continuous basis though the magnitude of increase is very moderate.

The non-performing assets of the credit given by the bank has increased during the last five years which indicate the bank advanced loans at different sectors but fails to secure repayment in time in a large number of cases. In fact the incidence of non-performing assets has increased more than double during the study period.

3.2. Performance measurement through selected ratio :

Table: 2 - Trends in Interest Earned Ratio (in percent)

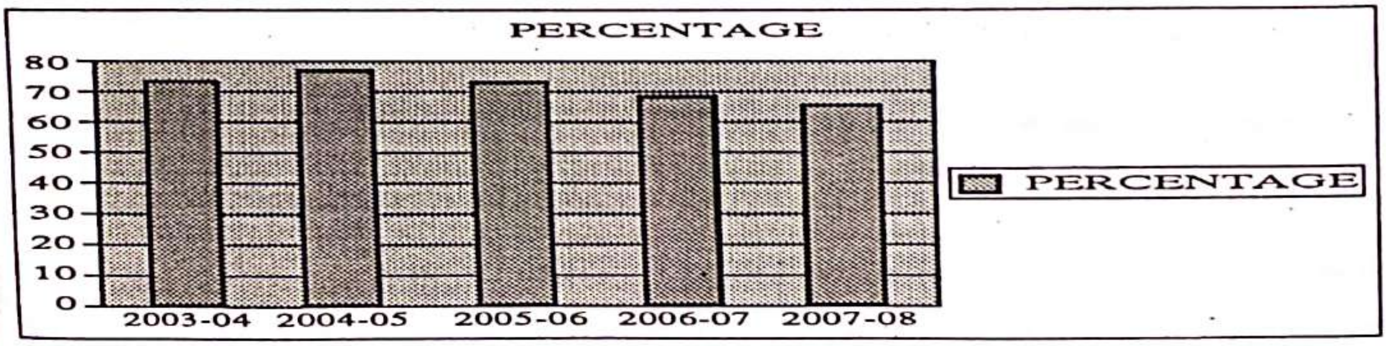
YEAR	2003-04	2004-05	2005-06	2006-07	2007-08
PERCENTAGE	91.40	95.58	98.36	95.99	95.89



Bank's interest earning capabilities are showing inconsistency. It starts at around 91% at the start of our study period. During the middle phases it has increased considerably. In fact in the year 2005-06 it has risen to as high as 98%. Thereafter it becomes stabilized at around 95%. This high percentage of interest earning in relation to the bank's total business shows bank's heavy dependence on interest earning which comes from the normal channel of banking business. It also shows bank's lack of ability to create newer sources of earning. In the era of interest rate cut bank's profitability is subject to high risk. The bank must concentrate in this regard and must try to innovate newer sources of businesses.

Table: 3 - Trends in Interest Paid Ratio (in percent)

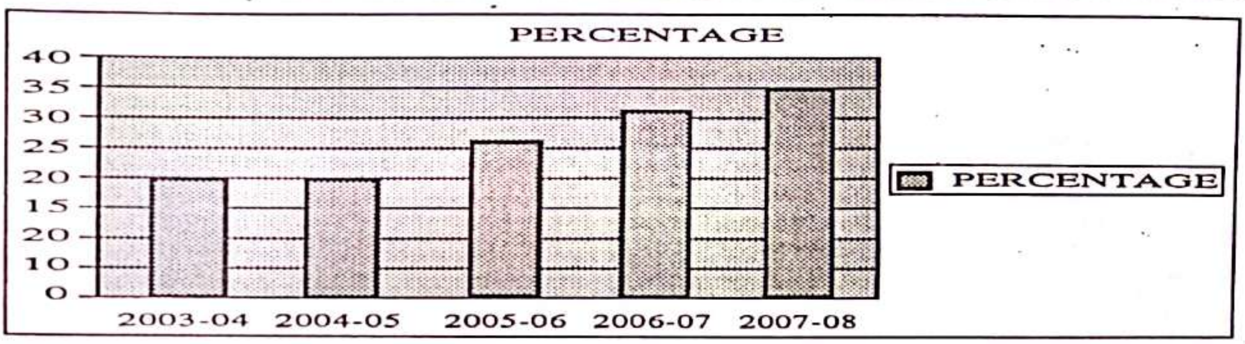
YEAR	2003-04	2004-05	2005-06	2006-07	2007-08
PERCENTAGE	71.86	76.09	71.93	65.53	61.55



Barring the year 2004-05 the bank's interest payment as a percentage of its total business in is on the decrease. It starts at around 71% in the initial years of study to fall considerably to be around 61% in the closing years of study. This decrease in interest payment in relation to the total business is a healthy sign from the point of view of the bank's profitability. At the same time moderate percentage in this respect hints at the presence of several other areas where the bank has to burn its cash. If these areas cannot contribute to the revenue earning capacity of the bank then it would have negative impact on the profitability of the bank.

Table: 4 - Trends in Spread Ratio (in percent)

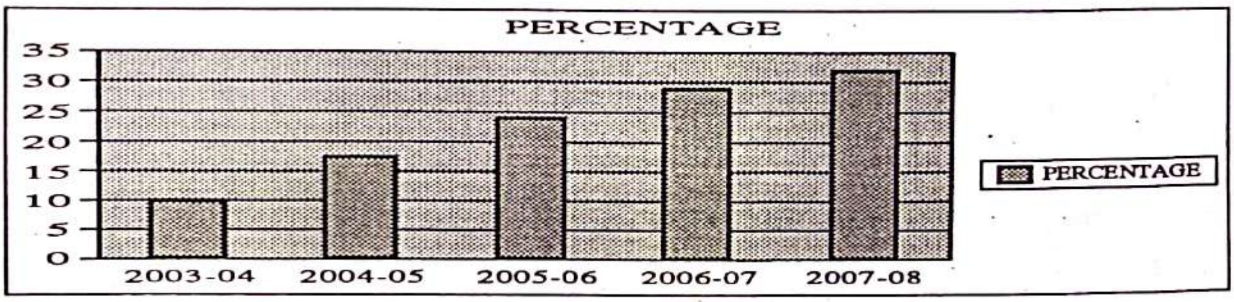
YEAR	2003-04	2004-05	2005-06	2006-07	2007-08
PERCENTAGE	19.54	19.49	26.43	30.46	34.34



The spread ratio of the bank is on the increase on a continuous basis. The rate of increase is also getting higher for such spread ratio. On the whole such spread ratio has nearly doubled during the course of our study.

Table: 5 - Trends in Burden Ratio (in percent)

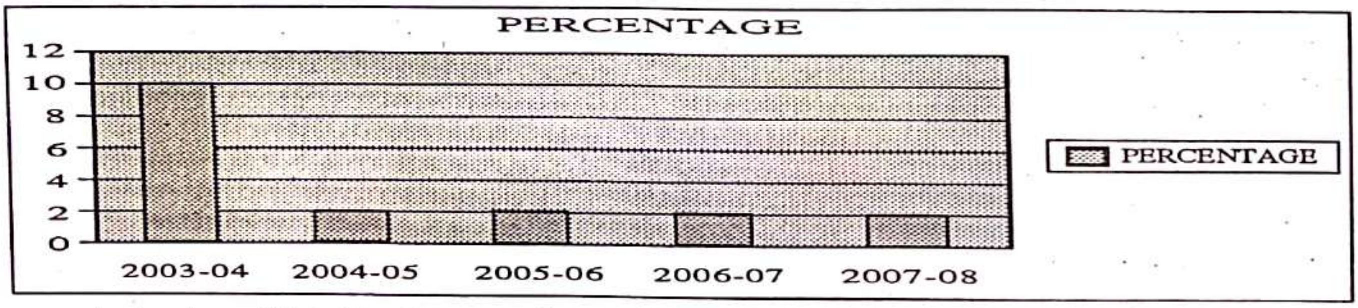
YEAR	2003-04	2004-05	2005-06	2006-07	2007-08
PERCENTAGE	9.79	17.36	23.99	28.52	31.94



Burden ratio of the bank is also increasing continuously. And the rate of such increase is getting higher as we progress through our study period. On the whole this ratio has registered a more than three fold growth during the study period. Increase in burden ratio at a rate which is much faster than the rate of increase in spread ratio is bound to have negative impact on the overall profitability of the bank.

Table: 6 - Trends in Profitability Ratio (in percent)

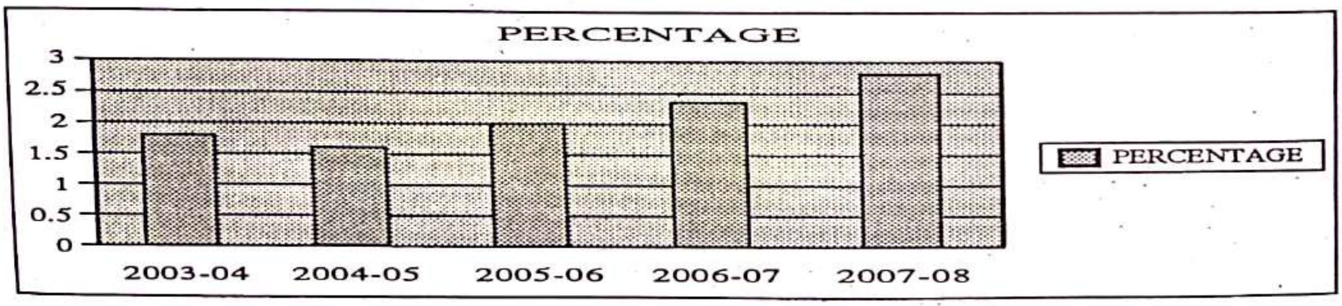
YEAR	2003-04	2004-05	2005-06	2006-07	2007-08
PERCENTAGE	9.75	2.13	2.44	1.94	2.40



As has been hinted in the preceding point that the profitability of the bank is bound to be worse in the face of smaller increase in spread ratio and bigger increase in burden ratio, the profitability is, in fact, getting worse as we progress through the study period. After the initial collapse the profitability is getting stabilized at around 2 percentage point.

Table 7 - Trends in Net interest Margin Ratio(in percent)

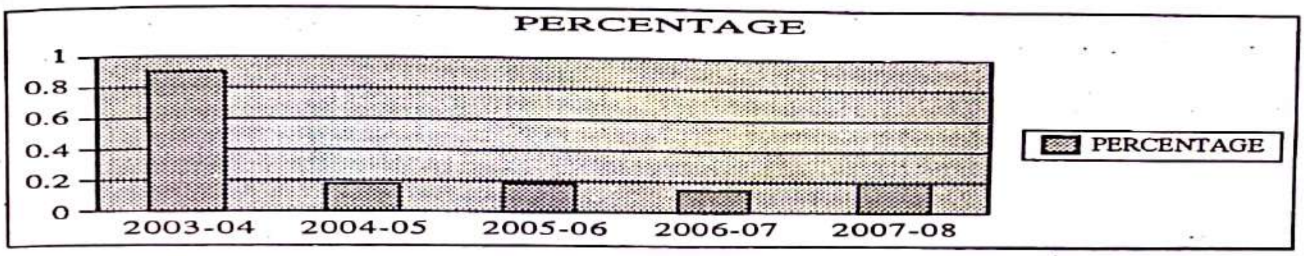
YEAR	2003-04	2004-05	2005-06	2006-07	2007-08
PERCENTAGE	1.79	1.58	1.97	2.31	2.80



The net interest margin is on a continuously increasing path. This is bound to have negative impact on the profitability of the bank.

Table: 8 - Trends in Return on Assets Ratio (in percent)

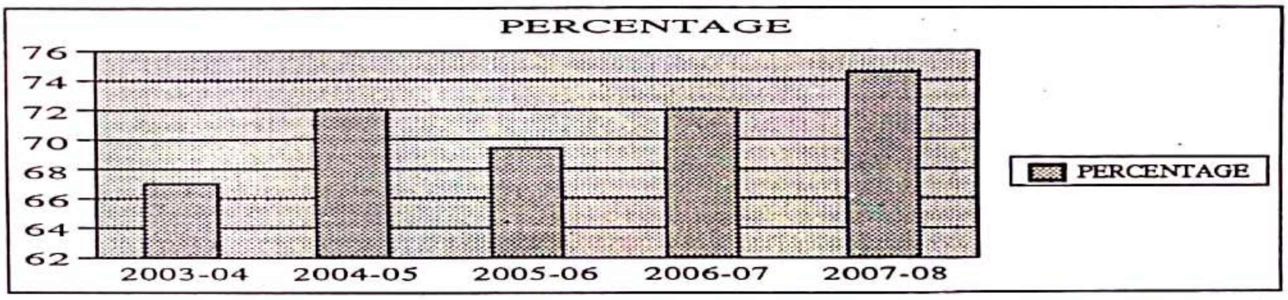
YEAR	2003-04	2004-05	2005-06	2006-07	2007-08
PERCENTAGE	0.89	0.17	0.18	0.14	0.19



Return on assets of the bank has fallen drastically during the course of our study. It starts at around a meager percentage of just below 1% only to shrink considerably to be at an abysmally low figure of less than 0.2%. The bank has not recovered from the tremendous jolt it has received in the year 2004-05 in this respect. Since then this ratio which is a very direct measure of profitability of any concern stays at an abysmally low level. This is a serious cause of concern for the management of the bank.

Table: 9 - Trends in Credit Deposit Ratio (in percent)

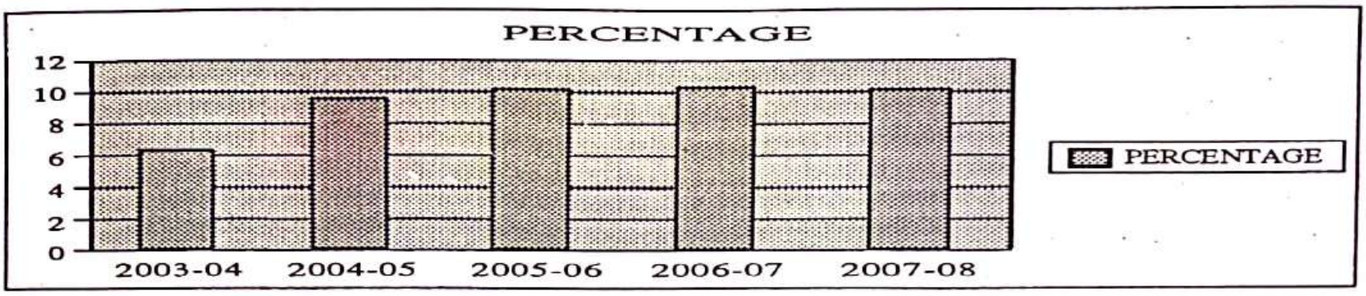
YEAR	2003-04	2004-05	2005-06	2006-07	2007-08
PERCENTAGE	67.18	71.85	69.45	71.86	74.38



The credit deposit ratio of the bank shows a very mixed picture during the entire study period. To start with around 67% and to finish with it has increased to around 74%. The intermittent years show ups and downs but on an average this ratio is on the increase. The overall increase in this ratio shows bank's efficiency in disbursing credit from the deposits. This is a prima facie evidence of the bank's good performance. But whether this good performance in this respect would be ultimately converted into better profitability will depend upon efficiency of the bank in another respect, namely, the handling of the incidence of non-performing assets.

Table: 10 - Trends in NPAs to Net Advances Ratio (in percent)

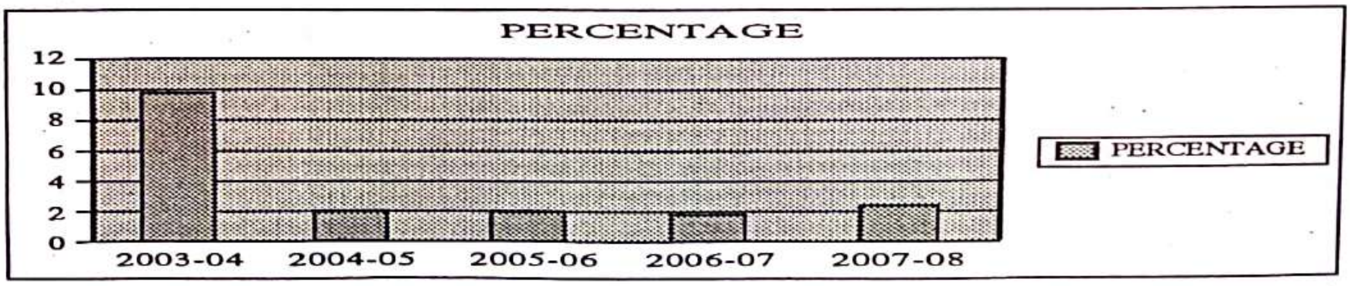
YEAR	2003-04	2004-05	2005-06	2006-07	2007-08
PERCENTAGE	6.45	9.34	10.12	10.29	10.10



Non performing assets of the bank in relation to its net advances are on the path of increase almost continuously On the whole this ratio starts at around 6.5% at the start of our study which has increase considerable and stays at around 10% during the remainder of the study period. Such increase in non-performing assets of the bank in relation to the net advances shows the bank's lack of efficiency in the matter of selecting right kind of clientele for making advances. This in turn, is bound to have negative impact in the profitability of the bank.

Table: 11 - Trends in Return on Net Worth Ratio (in percent)

YEAR	2003-04	2004-05	2005-06	2006-07	2007-08
PERCENTAGE	9.72	1.87	2.02	1.71	2.48



From the above chart it is clearly visible that the bank's return on net worth has received a beating during the course of our study. From a very respectable percentage of 9.72 it has come down to a meager percentage of around 2 percent. This ratio has shown signs of improvement during the closing phases of our study. Again in respect of this ratio we have seen reversal of trend in every alternate year. So, it will be of interest to see the ratio in the future years to come.

4. SUMMARY AND CONCLUSION

The selected bank is a prominent bank in the category of co-operative banks operating in the district. The analysis of the bank's financial performance shows that the bank is facing the problem of lower profitability. This lack of profitability is attributable to different reasons. Notable amongst these are slower rate in the increase in bank's spread ratio in comparison with its burden ratio. This also hints at the bank's inefficiency in the matter of capturing new and different channels of banking businesses. In the regime of interest rate cut, the bank with its normal banking operations is bound to suffer in terms of its profitability. The presence of huge non-performing assets is also making the profitability conditions of the bank even more difficult.

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Demographic Shifts and Change in Investors Attitude towards Financial Instrument

J. K. Das and Bireswar Chatterjee***

ABSTRACT : This paper provides an overview on how the global demographic shift is generating new patterns of financial and economic risk for society. The discussion begins with an overview of the basic demographics and pattern of changes that are occurring over the years; it then goes on to sketch the debate over the impact of demographic transition on the economy and capital markets and thus to the whole of human society; and last, it examines risk management products in this context. How financial market innovations could help mediate some of these risks is also discussed. This paper aims at finding out some probable solutions to the problem of population ageing throughout the world, by designing some suitable financial instruments with special reference to new Insurance Policies.

Key words : *Baby bust, Securitisation, Aged Dependency, Replacement Rate, Defined Benefit Pension Fund.*

1. INTRODUCTION

Changes in the global demographic pattern have been phenomenal in the recent days. Just after the World War-11, there was a sharp increase in the population growth all over the world (baby boom) which was followed by strict birth control (baby bust) in the developed countries leading to very low or no population growth. The situation gave rise to population ageing and scarcity of young working forces in the developed countries. Moreover, the aged dependency ratio sharply increased in those countries.

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This in turn gave rise to huge public expenditure towards social security schemes, medical expenditures and pension funds. More or less all the countries around the world are facing this crisis except some Asian countries like India, Bangladesh, and Pakistan etc., where as in Asia itself Japan and China the crisis is very acute.

Thus, in recent times Economists and Financial Market experts are in daunting task of finding out a suitable financial instrument, which can be very handy with the ageing population in the developed countries to fulfill the financial, medical needs after their retirement. New innovative financial instruments have already been introduced in the market throughout the globe and research is going on in different parts in this field.

In this paper it will be our endeavor to give a direction towards a better solution to this problem of fast population ageing in the advanced countries by suggesting a financial instrument, more specifically a flexible insurance plan, to the retired population of the world.

2. LITERATURE REVIEW

The pattern of demographic shifts has been discussed in detail in the UNDP reports (2009) published from time to time and the report has been a rich source of data for our study. A lot of study on the subject is going on at different parts of the world. Davis (2006) presented at G-20 Workshop on Demography and Financial Markets his paper on how ageing will affect the structure of financial market. The paper deals with the problem of population ageing and its effect on financial market at length. Cox and Lin (2005) discussed the problem of ageing risk in Journal of Risk and Insurance in his topic 'Securitisation of Mortality Risk'. The paper Demographic Shift and Financial Risk written by Piggott et al. (2005) of University of New South Wales discussed the challenges to the financial system due to ageing and low growth.

3. THE GLOBAL DEMOGRAPHIC SHIFT

The reality of population ageing is now widely discussed across the world, although the underlying dynamics may not be fully appreciated. Specifically, four major demographic dynamics drive this process: people are living longer; they are having fewer children; they are retiring earlier; and the baby "bust" (break in birth rate) is occurring around the world although at different times across regions and nations. To focus on the purely demographic forces, it is worth noting that older cohorts of individuals are living longer than ever before in human history, while younger cohorts are having fewer children. An example offers a sense of the quantitative magnitude of the change in longevity. In 1975, there was only a 38 percent chance that at least one member of a married couple aged 65 and 60, respectively, would still be alive at age 90 (the age at which the female member would be now). For the same aged couple in 2005, that probability has risen to approximately 57 percent. Looking ahead, projections reveal that this last survivor probability is to rise again in the future, to 64 percent in 2025, and 71 percent in 2045.

Population ageing is already being experienced in many countries and this demographic transition is expected to become more prominent over the next 40 years. When these two effects interact with roughly constant retirement ages, the aged dependency ratio increases. It is important to distinguish between increasing longevity and an increasing aged dependency ratio. The first gives a sense of the increase in aggregate size of the retired population; the second gives a sense of fiscal capacity to support the retired population. The aged dependency ratio also depends on retirement age. This has been falling over the last 30 years, although the decline may now have flattened. Participation rates for males aged

60-64 have fallen to between 10 percent and 50 percent in the G7, compared with over 70 percent in 1970. The result of these interacting demographic forces means that in the G7 aged dependency ratios are projected to increase from less than 25 percent today to more than 40 percent in 2030.

It is also worth noting that these dynamics are occurring at different times and at different rates across countries and regions. By 2050, more than 910 million Asians will be older than 65, up from 250 million today. But the largest percentage increase in the aged dependency ratio is expected to occur in Europe, primarily due to reduced fertility and not increased longevity. These regional projections mask powerful individual country differences. For instance the fertility decline in China has been dramatic following the one-child policy over the past two decades; Japan, the world's most rapidly ageing country, with low fertility and negligible immigration, now faces far heavier aged dependency than Asia in general. On the other hand, Sweden enjoys fertility close to the replacement rate, while Spain's rate is one of the worlds lowest. The industrialized countries are leading the way in this demographic transformation. The developing parts of the world will encounter similar changes, but much later in time, with the notable exception of China, where rapid population ageing is already taking place.

Over the last century, life expectancy has increased substantially as gains in nutrition, progress in the prevention and treatment of infectious diseases, income growth, improved living standards and healthier lifestyles have led to improved health. For the world as a whole, life expectancy increased from 46 years in 1955 to 66 years in 2005. It will reach 75 years by 2050, according to UN population projections. In Europe, life expectancy is projected to increase from 74 years in 2005 to 81 years in 2050; in North America, from 78 years to 83 years; in Japan, from 82 years to 87 years; and, in China, from 72 years to 79 years.

Improved health and expanding lifespan have been accompanied by significant declines in fertility rates in the developed countries after the birth of the baby-boom generation following World War II. The fertility rate in the US has fallen to 2.0 births over a woman's lifetime, from its peak of 3.5 in 1957. This is slightly below the 'replacement rate' of 2.1, which is the level of fertility required to keep the population constant in the absence of immigration and changes in longevity. Fertility rates have fallen much further in Europe and Japan over the past fifty years, lowering birth rates far below the replacement rate. Fertility has started to decline in the developing parts of the world as well. In China it has dropped to 1.7 births over a woman's lifetime, compared to 6.2 fifty years ago. In India as per 2009 estimates, the fertility rate is 2.72 children born/woman. The Indian scenario can be described in a chart as below ;

Table 1: Fertility Rate in India during Last seven Years

Year	2003	2004	2005	2006	2007	2008	2009
Fertility Rate	2.90	2.80	2.80	2.70	2.75	2.72	2.71

Source: Human Development report, 2009

The trend of increasing life expectancy, combined with reduced fertility rates, is causing important changes in the demographic structure of the global population.

The old-age dependency ratio - the ratio of elderly (aged 65+) to working-age population (aged 15-64), is projected to increase significantly over the next few decades as the share of younger people in the population shrinks and the share of the elderly grows. According to the UN, the old-age dependency ratio for the world as a whole will rise sharply from its current level of 11% to 25% in 2050. Population ageing will be particularly acute in Japan and Western Europe. Projections suggest that Japan's old-age dependency ratio will rise from 30% today to 74% in 2050, while Western Europe's will increase from 26% to 48%. The situation is slightly more favorable in the US, where the ratio is projected to rise from 18% today to 34% in 2050. This is due to higher birth rates and immigration. According to Human Development report 2009, the old-age dependency ratio in India was 6.6 in 1990 and is expected at 7.7 in 2010.

4. SOCIAL AND ECONOMIC CONSEQUENCES OF POPULATION AGING

The ageing of the population has profound social and economic consequences that will require many adjustments by the public and the private sectors. One issue of tremendous importance is the future financial sustainability of health and income security programs for retirees. Population ageing poses serious challenges for both government-run programs for the elderly and for funded private savings retirement plans. Let me delve a little deeper into these implications of demographic changes for public and private retirement provisions.

In many countries, public pension and healthcare provisions for the elderly are funded on a "pay-as-you-go" basis - current retiree benefit expenditures are funded through current tax contributions. As the demographic profile of the population changes and the ratio of retirees to the working-age population rises, a smaller workforce will have to support a growing number of program beneficiaries. This will place substantial strain on government fiscal balances.

Projections by the European Commission suggest that age-related public expenditures as a share of GDP will be around five percentage points higher by 2050 than they are today in Germany and France and eight percentage points higher for Switzerland. To remain fiscally sustainable, the government-run programs for the elderly will require difficult policy adjustments - such as later retirement, higher tax contributions, or reduced program benefits.

The fiscal challenges faced by the public programs for the elderly population highlight the importance of private savings for retirement. Private occupational pension plans have already come under mounting funding pressures. Many defined-benefit pension schemes, which bear substantial exposure to longevity and financial market risks, have become under-funded. Indeed, according to an IMF report, over 90 percent of pension funds in Japan, the United Kingdom and the United States were under-funded. In the aftermath of the global financial turmoil of 2001-2002. Funding levels have recovered somewhat over the past few years, as equity markets and government and corporate bond yields have raised.

The emergence of large pension funding gaps has raised major concerns about employer-sponsored retirement benefits in the future. Faced with rising pension liabilities, corporations have already moved away from offering defined-benefit pension plans towards defined-contribution plans, shifting long-term longevity risk and investment risks to individuals and households. Thus, there is an increase in risks borne by individual households, implying that individuals will need to become more self-reliant and supplement their traditional sources of retirement income with additional private savings.

Another important implication of population ageing relates to its potential impact on the demand for financial assets and financial market returns. Households accumulate financial assets while working and draw down assets in retirement. Some analysts believe that as the baby-boom cohort reaches retirement, many households will deplete financial assets to support retirement consumption and drive down asset values and long-term investment returns, causing an 'asset meltdown.' Jeremy Siegel of the Wharton School suggests, in his recent book "Future of Investors", that this problem might be averted if the younger populations in less-developed countries purchase the assets sold in retirement by baby boomers in the developed countries. Given the uncertain empirical evidence, it is unclear whether future long-term asset prices will be affected by the retirement of the baby-boom generation.

Because of these regional and national differentials in population ageing, there is reason to believe that the impact of ageing on financial markets may also occur at different rates over time. Capital movements across national boundaries, and between regions, are likely to be partly demographically driven in the future, along with associated exchange rate adjustments. This generates opportunities for financial products, which can to some extent facilitate these exchanges.

5. THE ROLE OF THE INSURANCE INDUSTRY

There are four main types of risk security products 'Risk Security', 'Disability Security', 'Critical Illness Security' and 'Long-Term Care Security'. Critical illness is insurance that pays a fixed benefit upon the diagnosis of specified conditions or diseases, or their progress to a specific stage. The following four main critical illness conditions account for most claims - heart attack, stroke, cancer and coronary artery bypass surgery. In traditional long-term care insurance, the insurer agrees to pay a predefined regular benefit or lump sum to insured's who satisfy a disablement definition designed to indicate that they are no longer able to care for their basic human needs.

Growth in total premiums, which consist of saving and risk premiums, has outpaced growth of risk premiums over the past nine years, largely due to the strong sales of single premium savings products. Of the risk lines, the growth of Risk premiums has lagged behind that of other risks, largely due to the falling sales of bundled savings and Security products; nevertheless, Risk is the largest risk business within the total risk premiums. Disability covers are written all over the world and currently account for nearly one-sixth of risk premiums (Journal of Insurance and Risk, 2009, pg-57). Critical illness and long term care have gained share but still account for a small portion of risk premiums. Critical illness is often written in conjunction with Risk cover.

Globally a shift towards unbundling or separation of risk security from savings can be observed. Pure risk security products particularly individual term has experienced very strong growth, attributable in part to a decline in term premium rates. In contrast, the premium growth for other risk products has fallen or stagnated due to a shift of savings away from bundled products, such as endowments, into pure savings products.

6. RISK SECURITY DRIVERS

Several factors help explain demand for Risk security including age, income, affordability and macro economic variables.

a) Household demand

Demand for Risk Security is closely tied to the life cycle and family income. As the primary earner grows older, he or she initially becomes more likely to buy risk security. Globally, for example, 87% of families whose primary earner is 45-54 years old own term insurance, as opposed to 62% of households whose primary earner is younger than 35. Beyond age 55, the level of insurance held declines sharply because children have left home, some families have saved enough and do not require insurance, and risk security grows more expensive with age. Nonetheless because people are living longer, there will likely be growing demand for insurance among people aged 55 and over (Journal of Insurance and Risk 2009, pg-59).

Household demand for Risk Security is also closely related to income. Income also heavily influences the decision of whether to hold any Risk Security at all.

Despite these patterns with respect to age and income, research shows that the extent of life insurance coverage is poorly correlated with underlying financial vulnerabilities. A study finds no correlation between insurance needs and holdings (Cox and Lin 2005). The observation that holdings do not match up with needs, is consistent with the industry expression that insurance is sold and not bought, means that the basic financial needs of many families remain un-addressed.

b) Affordability

Affordability also influences the demand for Risk Security. A recent study estimates that globally the demand for one-year renewable term insurance (RTI), the price elasticity of demand for Risk coverage is 0.5. This means that for each 10% decrease in premium rates, there is a 5% increase in sums assured (Insurance Journal, 2008 pg-22). This relationship is important because the price of Risk Security has fallen significantly in some markets over the past few years.

c) Mortgage debt

In markets where mortgage insurance is common are places, such as the UK, the level of mortgage debt outstanding is a key determinant of life insurance demand. It follows that in these markets home prices and homeownership rates also help explain the demand for life insurance.

d) Macro factors

Country specific economic, demographic and cultural factors can also influence the demand for Risk Security. A recent World Bank study examined 68 countries from 1961-2000 to see which of these factors drive demand for life insurance. It found that income per capita and inflation are the most robust predictors of life insurance consumption across countries and over time. In particular, each 10% increase in real per capital GDP was associated with a 19% rise in life insurance in force. Each percentage point increase in inflation reduces life insurance in force by 1.4%. Interest, the study found that a variety of demographic variables (including dependency ratios, life expectancy, education level, urbanisation), income distribution and social security expenditure do not consistently explain differences in demand for Risk Security (Insurance Journal, 2008 pg-19).

The insurance industry can help individuals cope with their late-life financial needs and secure a comfortable retirement income. The industry is well positioned to help individuals build up their working-year savings and support retirement income. In the accumulation phase, savings can be flexible with varying amounts and timing of contributions into a life-savings plan. Investment diversification, tax advantages, and a gradual adjustment of individual's risk-return profile based on their age will enhance the efficiency of these efforts. In the distribution phase, insurers can help individuals plan how they spend their savings and provide protection against longevity and inflation risks.

As the population ages, attention in the retirement savings market will shift from the present focus on how to accumulate assets, towards how to preserve wealth and protect against late-life financial risks. There will be increased demand for various types of annuities, health care and long-term care insurance, for products that allow wealth monetization such as reverse mortgages that release home equity, and for wealth transfer in the case of death. There will also be growing demand for products that combine cash payouts with insurance of various types - such as long-term care products paired with annuities or life insurance. These combination products provide lifetime income if the insured remains healthy, a nursing home benefit if the individual is not well, or a death benefit in the case of an early death. The pooling of different types of risks can sometimes create a natural hedge that has the potential to make some combination products less expensive than separately purchased products.

The insurance industry has already responded to the significant demographic shift by developing products that protect the insured against new, more complex risks and combinations of risks. Let's use annuities as an example. Annuities can assume many different forms, depending on the income payment (fixed or variable) and the payout period (immediate or deferred). There has been tremendous innovation and growth in the annuity marketplace over the past few years, with new and enhanced features, such as guaranteed-minimum death and living benefits in variable annuities and equity-indexed annuities. These products have gained popularity because they provide protection against financial loss if the equity market declines, while allowing potential gains for the policyholder substantially above the minimum guarantees. In the US and Japan, sales of annuities with guarantees have grown robustly and consumer interest in these products is on the rise in the UK and continental Europe as well.

Annuities carry not only insurance risks, such as longevity and mortality, but also financial market risks. The financial risks include, for example, interest-rate and equity-market guarantees, and policyholder behavior risks such as withdrawal guarantees. Some of these insurance and financial risks may be correlated, making them more difficult to manage. The new, more sophisticated life products present insurers with unique challenges that require more intricate financial tools for risk and capital management.

The table below shows the changing trend of customer's attitude towards different types of insurance policies sold by the LICI in the Eastern Zone.

Table-2: Change in Customers Preference Towards Insurance Policies in Last three Financial Years

Financial Year	Whole Life policy	Endowment policy	Money back & others	ULIP Policy	Annuity
2007-2008	3582	952165	4356235	125342	2123
2008-2009	2178	461110	3283860	801135	3936
2009-2010	Nil	157100	2116146	1150139	6274

Source: LIC Eastern Zone Marketing Report, 2009.

7. RISK AND CAPITAL MANAGEMENT CHALLENGES

How can insurers manage the newer risks embedded in the life products they currently offer? First, they can transfer the risks to re-insurers. Reinsurance market capacity for this has been fairly limited in recent years but the situation is gradually improving. Our solution provides full risk transfer, shifting both the capital market and actuarial risks of the guarantees.

Moreover, insurers (and re-insurers) can hedge and transfer the risks to the capital markets. Financial innovation is increasingly providing new, more sophisticated and suitable tools to facilitate this. Derivatives, securitization, hedges, and structured capital solutions - all of these are becoming more crucial to insurers' ability to maintain solvency and maximize profits. Derivatives are particularly useful for the market risks embedded in life insurance products, while securitizations can be used to manage capital and transfer risks.

Insurers are already offering products with an automatic inflation adjustment option that increases the benefit amount overtime. Inflation-protected benefits can largely be hedged by index-linked bonds and inflation swaps. While this provides protection against general inflation, frequently long-term care costs (which have a substantial health-care cost component) rise at a much more rapid pace than overall inflation. A new derivative, one linked to a long-term care cost index, would enable life insurers to enhance the product and make it more suitable for the needs of the elderly, while helping companies manage the underlying risks.

Securitization, the other financial tool, is the process of pooling a group of risks and then dividing that pool of risks into portions that are sold as securities to a wide range of investors. Life bonds typically transfer catastrophic risks to the bond market, monetize intangible assets, and fund regulatory capital requirements.

Catastrophe securitizations, such as mortality and longevity bonds, allow life insurers and reinsurers to hedge against the risk of extreme increases in mortality due, for example, to a pandemic flu, or higher than expected improvements in longevity. In the case of catastrophic mortality bonds, investors purchase securities and receive a cash flow that will decrease if mortality levels hit a particular hurdle level. Swiss Re's Vita II securitization, for example, has a trigger based on mortality indices in several countries. It begins to pay money back to Swiss Re once mortality is 10% higher than expected.

Longevity risk could also be shifted to investors through securitization. These bonds could provide a long-term, tradable instrument that hedges longevity risk by scaling payouts according to a longevity index. This type of securitization has been attempted, but has not yet been successfully marketed to the investment community, perhaps because of the specific bond structure or the quality of the index. For this market to take off, at a minimum, longevity statistics for various demographic and socio-economic groups must be compiled and promptly updated. This will facilitate the pricing of bonds with payments determined by the longevity index and parameters. Development of suitable structures to transfer longevity risk to the capital markets will help pension funds and insurance companies better manage this risk, encouraging insurers and re-insurers to allocate additional capital to their longevity business.

8. HOW CAN FINANCIAL AND INSURANCE MARKETS SPREAD AGEING RISK?

Having outlined how the massive demographic shift might influence financial markets and the economy, next we turn to a discussion of key innovations through which markets may address the financial income risk profiles associated with population ageing. The risks themselves are not new, but their social incidence is likely to be far greater as Baby Boomers age. This is because Boomers themselves are more numerous and live longer and also because they will have a diminished younger cohort to support them, whether through the market, through tax-transfer mechanisms, or through direct, non-market, family-based support. We divide our discussion into retail and wholesale products.

Most centrally, the key income risk confronting the retired has to do with longevity risk. This concern stems from the worry that people may outlive their wealth which can happen if they save too little, retire too early, and/or spend too quickly in retirement. Systematic increases in longevity over time have been dramatic, as we pointed out above. The longevity problem has been exacerbated as firms and governments have phased out defined benefit (DB) pensions, and instead given increasing emphasis to defined contribution (DC) plans.

These trends imply that private insurance markets are likely to become increasingly important as populations age. Nevertheless, there is some consensus that annuity markets are not yet adept at helping individuals to manage longevity risk. In what follows, we discuss the risks faced by both providers and purchasers of insurance that may have contributed to longevity insurance market failure and review a range of possible solutions.

Annuities: The traditional way to insure against outliving one's assets is to purchase a life annuity, which is a financial product guaranteeing a lifelong stream of payments in exchange for an initial premium. There is strong evidence that people holding this kind of guaranteed income stream in retirement, either as a pension or as an annuity, are more likely to have satisfactory retirements than others. Despite the intuitive appeal of annuity products, however, participation in such markets has been relatively thin in most countries, with the UK and the US being moderate exceptions. The traditional explanation for this is that information is not common in annuity market transactions - the buyer knows more than the seller about his or her life expectancy - and adverse selection results. A second possible explanation sees the bequest motive as a barrier to adequate annuity purchase. Myopia has also been cited (Brown et al. 2001). Less noted in the literature is a reluctance of supply. But the perception persists that insurers are uncertain about the risks surrounding systematic mortality improvements, so they are therefore reluctant to hold an extensive life annuity portfolio.

One possible response to this is to "unbundle" the risks associated with annuities. That is, currently available annuities usually insure against investment risk, longevity risk, and sometimes inflation risk as well. This means that the payout offered is low, which makes annuity contracts less attractive to consumers. But it is possible to separate out these risks, and to design products, which offered coverage of different degrees of risk at different times during retirement. Except to the extent that the retirement decision is seen as irreversible, there is no discontinuity in desired asset allocation at the point of retirement. Yet a conventional annuity purchased at retirement, when a DC plan accumulation is available, provides full coverage against investment risk, implying a payout based on a risk free rate of return. It would be possible to offer a product, which allowed for variation in payout in the early years of retirement, but with a higher underlying rate of return.

Again, consider longevity insurance. Longevity risk comprises both systematic and idiosyncratic components. It would be possible to offer a pooled annuity fund, in which the insurer played the role of an administrator, ensuring compliance in spreading idiosyncratic risk within and between cohorts, but allowing systematic risk to stay with the annuitant. Since the supply reluctance noted above stems from uncertainty around systematic risk, while consumers are much more concerned about idiosyncratic risk, this arrangement offers considerable potential for improved risk sharing across stakeholders. The response in practice has been to specify that retirement accumulations should be drawn down over a period of time, usually life expectancy. These are generically known as "phased withdrawals." Even here, it would be possible to quarantine a relatively small proportion of a lump sum accumulation, to provide for the purchase of a deferred annuity which might begin to pay at the (projected) age of life expectancy. The capital sum involved to provide an inflation-indexed income stream equal to the expected value of income during the draw-down phase would not be especially large - perhaps 20 percent or less of the accumulation - but it would build for survivors, because of mortality bonus, and the compounding of the principal over the 15 or so years elapsing prior to life expectancy.

Yet with a phased withdrawal approach there is no longevity insurance, and one cannot be sure that there would even be a survivor benefit. This suggests that if, as has been observed over the last 20 years, public benefits continue to be eroded, societies may confront many old poor, especially older widows. Longevity insurance mandates appear thin, and if anything, are losing grounds in the policy arena. All insurers, both private and public, appear to be shrinking from this kind of insurance provision, at exactly the time when it is becoming most necessary.

Reverse Mortgages : When retirement resources are considered as a whole, the fights to public benefits are most important, followed by the owner occupied home. This suggests that instruments designed to unlock housing equity may become popular.

9. CONCLUSION

The developments discussed in the above paragraphs have raised the need for the private-sector involvement to provide suitable and sustainable solutions for the retirement of the baby boom generation. Our insurance industry is up to this tremendously important task, developing new, sophisticated and flexible products that protect against longevity and late-life financial risks. The new products carry increased market risk and longevity risks, in addition to the more traditional insurance risks. Therefore, insurers are increasingly using capital market instruments such as derivatives and securitization to hedge and transfer risks and manage their capital efficiently. It is believed that we are going to see an acceleration of this trend and continuing financial innovation in this area, to the great benefit of our industry and our clients.

Insurance industry's goal has been to review theoretical and empirical studies on the potential impact of population ageing on global financial markets, with the specific intention of drawing conclusions about financial products that might enhance old-age retirement risk management. While global population ageing may prove to have some undesirable financial impacts, we believe that financial markets can themselves offer new ideas to help manage retirement risks more effectively. To this end, we have suggested several products along these lines, including reverse mortgages, new forms of annuities, survivor and mortality bonds, and mortality derivatives securitization.

Nevertheless, financial and insurance markets are moving slowly in these directions so far. One reason may be lack of consumer awareness, and surely additional efforts would be required to raise levels of financial literacy among consumers. In addition, supplier reluctance no doubt contributes, due to uncertainty regarding longevity trends, moral hazard, and adverse selection in the insurance markets.

There could be a very fruitful role for supra-national institutions, if they could collaborate to support the development of internationally viable markets and products for aged risk management, especially those concerned with longevity insurance. This would help in generating useful information and help manage the risks associated with ageing. In the past, governments worked to make markets work better to the benefit of the young by supporting education, healthcare, and housing. There is also opportunity to help the aged by solving market coordination problems outlined here. Important to this process will be new attention to relevant tax and regulatory reform.

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