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India-China-South Asia Trade Relations: A Comparative Analysis (1990-2014)

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ABSTRACT

Bilateral Revealed Comparative Advantage (BRCA) and Constant Market Share Analysis (CMSA) have been used to study the nature and trend of trade flows in the region. A commodity level analysis of trade data has been done in the study using SITC and HS data from United Nations for the period of 1990-2014. It was found that; South Asian exports to India and China is more because of expansion Effect, while India's export to China and China's exports to India is more because of Competitiveness Effect during the period 1990-2014; India and South Asia have different export specialization structure in their export basket to China and China and South Asia also have different specialization in their exports to India as China has specialisation in four SITC products while South Asia has specialisation in just one SITC product; India has stronger trade ties with Sri Lanka, Nepal, Bhutan, Maldives compared to China and China has stronger trade ties with Pakistan and Bangladesh compared to India; India is more competitive than China in overall South Asian market in the sectors; Animal, Chemicals, Food Products, Fuels, Minerals, Vegetables and Transport. China is more competitive than India in overall South Asian market in the sectors; Footwear, Glass, Hides & Skin, Machine & Electronics, Metals, Plastic & Rubber, Textile & Clothing, Wood and Others. Almost same is the distribution of sectors between India and China if compared in the rest of world. India & China are more Export Competitive in the rest of the world than in South Asian countries; China is more competitive than India in South Asian countries like, Pakistan, Bangladesh, Sri Lanka and Maldives except Nepal and Bhutan where India is more Export Competitive than China

Keywords: BRCA, CMSA, Trade, China, India, South Asia

INTRODUCTION

Growing South Asian market has almost become a battle field especially for the two strongest economic players in the region, India and China. India being a part of South Asian region would naturally want to remain the strongest political and economic power in the region but its rivalry with Pakistan has lately

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given a lot of space to India's nearest economic rival China both to politically interfere in the regional politics and establish its strong economic presence in the region. China had undoubtedly been remarkably visible in the South Asian markets since 1990s and now Chinese presence is being strongly felt in the political sphere in the region. There are both the arguments in the literature; one, that China is entering into South Asian geopolitics more actively in search for markets and two, that it is using its economic statecraft to make its geopolitical and strategic position stronger in the region. China's changing foreign policy in the region from being an inward to extra-outward might change the economic and political equations in South Asia. Otherwise a silent nation on the global conflicts comes on the forefront to maintain peace in Afghanistan and doesn't even hesitate to sit with the biggest rival, the United States in the Quadrilateral

Coordination Group (QCG) to facilitate peace and reconciliation in Afghanistan. China knows that, eventually, long-term stability in Afghanistan, that has become a safe haven for Chinese Uighur militant groups, will allow it to make huge investments in a badly war trodden economy and build railways, roads, electricity, and water projects in the country as part of its Silk Road Economic Belt. China is already a major investor in Afghanistan, through projects like the Mes Aynak copper mine - a 3.5 Billion US Dollar project in Logar province run by a Chinese state-owned enterprise - the largest direct foreign investment in Afghanistan's history.

China has become very active in Sri Lanka's market too; China's FDI to Sri Lanka reached 403.5 Million US Dollar in 2014 from just 4.1 Million US Dollar in 2010. For China, Sri Lanka stands as an important node in the Maritime Silk Road, the maritime component of Beijing's broader One Belt, One Road initiative to improve infrastructure and connectivity across Asia. Colombo Port City project, a 1.4 Billion US Dollar Chinese initiative is the largest in Sri Lanka's history. China has also been seeking to woo Bangladesh that comes within India's traditional sphere of influence. Bangladeshi and Chinese firms have signed 13.6 billion US Dollar in trade and investment deals on the sidelines of President Xi Jinping's brief tour to the South Asian nation. The deals are in addition to 20 billion US Dollar in loan agreements that the two governments signed. The two nations also signed an agreement to conduct a feasibility study on a China-Bangladesh free trade agreement. Dhaka has been so far reluctant to sign a bilateral FTA with China and instead sought unilateral duty-free and quota-free access for its products in the Chinese market.

China already has an FTA with Pakistan, an important player in the South Asian Economy and Politics. Now when we look at China's economic presence in the South Asian region; we see that China's exports to South Asian countries have increased with a Compound Annual Growth Rate of around 25% in the last 15 years from merely 4.2 billion US Dollar in 2001 to 94.3 billion US Dollar in 2015. With rise in China's exports to South Asian countries, South Asia has been falling deep into Trade Deficit; South Asia had a Trade deficit of just 1.9 billion US Dollar with China in the year 2001 that has gone up to 77.4 billion US Dollar in 2015. Out of the total Chinese export to South Asia, 62% goes to

India alone, 17% to Pakistan, 15% to Bangladesh, 5% to Sri Lanka and rest four countries, namely Nepal, Afghanistan, Maldives and Bhutan together account for just 1% of the China's total exports to South Asia in the year 2015.

India has the highest share in China's exports to South Asia but China's exports to Bangladesh and Pakistan is more significant than its export to India because China's export to Bangladesh and Pakistan is more concentrated and specialized and suggest less scope for diversion according to Trade Intensity Index. Now when we compare the competitiveness of China's exports to South Asian countries at commodity level (HS-Six Digit) with the help of Normalized Bilateral Revealed Comparative Advantage (BRCA), we find that Bhutan, which has very less share of total exports, has the highest percentage of commodities (86%) in its basket that have comparative advantage for China, followed by India with 64%, Bangladesh & Pakistan both with 61%. Together All the South Asian countries account just 4% of China's total exports to world in 2015 and it was even lesser in 2001 with just around 2%. So economically South Asian countries are not very important for China, especially smaller countries of the region like Nepal, Afghanistan, Maldives and Bhutan but strategically they might be important because of their locations on the trade route or because of the geopolitics.

India China trade was among the fastest growing bilateral trade not just in South Asia but in the world in last decades. It had already crossed the figure of 71 billion US dollar in the year 2014[1]. This whole trade actually grew in a very short period of about 20 years; India China bilateral trade was just 0.5 billion US dollar in the year 1990[2]. Today, China has reached to the position of India's number one trading partner and India is among the top ten trading partners of China. Along with this, India China bilateral trade volumes have grown faster than any of the other partner's trade with China. Thus, India and China are heading towards becoming mutually important and beneficial trading partners not just for each other but also for the neighboring nations that fall in the supply chain of this bilateral trade.

There is a lot of scope and opportunities in the India China bilateral trade relations to grow further and reach new heights in the near future. India China trade lane is forecasted by PwC[3] to be among the top 5 trade lanes in 2030 while today it is nowhere in the top 25 air and sea trade lanes of the world.[4]

LITERATURE REVIEW

High volumes and growth of trade between India and China may lead many neighboring nations in South Asia to have suspicion about it and regard it as something harmful for their economies seeing the geopolitics in the region. If we see it in an economic perspective, growing India China bilateral trade has

1 United Nations Commodity Trade Statistics Database

2 Ibid.

3 PwC is a renowned global business research and consulting firm with offices in 148 countries of the world.

4 http://www.pwc.com/en_GR/gr/publications/assets/future-of-world-trade.pdf

been proved to be a positive indicator for the trade of all South Asian countries. When we study the nature of India China trade, we find that the trade volumes are not being diverted to this trade lane from any other lanes in the region; this trend is purely based on trade creation and competitiveness. Swapan K. Bhattacharya and Biswa N. Bhattacharya argue "India China trade may build bridges between East and South Asia"5. Another well known researcher, Arvind Panagariya states "Outstanding growth of India China trade is a positive indication for India-China Free Trade Area and India-China Free Trade Area would probably be the best starting point to create an Asian bloc"6.

Some researchers believe that India and China being among the strongest players would always have conflict of interest in the region to strengthen their economic presence and establish political strength. Shao Chuan Leng states; *"India and China face potential conflicts being rivals for leadership in Asia. Different forms of government in both the countries are among the reasons of potential conflict. Another reason is cited that they have conflicting trade interests in the region"*.[7]

The region of South Asia is very important for both India and China. The two countries would always try to maintain their diplomatic as well as economic relations with their neighbors. Ye Hailin[8] (2008) argues that China is trying to strengthen its relations with South Asian economies and wants to deepen cooperation in many fields because China wants to maintain its relations with South Asia in the same way as it maintained with East Asia, Southeast Asia, Europe and North America. The economic relation between China and South Asian countries has been getting even better.

Shri Prakash[9] (1994) goes against the traditional argument that Chinese trade expansion would always be at the cost of the other Asian countries, especially at the cost of India's interest. He says that commodity composition of these trading nation shows totally a different picture, where each nation is getting advantage out of trade and exchange.

Yeongseop Rhee, Barry Eichengreen and Hui Tong[10] (2007) made an analysis of the impact of China's growth on the exports of its neighbors in Asia. They

5 Bhattacharaya, Swapan K. and Bhattacharaya Biswa N. "*Gains and Losses of India-China Trade Cooperation-A Gravity Model Impact Analysis*", CESIFO Working Paper No. 1970 (April, 2007), Centre for Economic Studies and the Ifo Institute for Economic Research

6 Panagariya, Arvind. *"India and China: Trade and Foreign Investment"* SCID Working Paper 302 (2006), Stanford Center for International Development, Stanford University, CA 94305, USA

7 Leng, Shao Chuan *"India and China"*, Far Eastern Survey, May, 1952, American Institute of Pacific Relations

8 Hailin, Ye. *"China and South Asian relations in a new perspective"* Institute of Asia-Pacific Studies, Chinese Academy of Social Sciences (2008).

9 Prakash, Shri. *"Economic Dimensions of Sino-Indian Relations"* China Report, A journal of East Asian Studies (1994). Sage Publications, New Delhi

10 Eichengreen, Barry. Rhee, Yeongseop. & Tong, Hui. *"China and the Exports of Other Asian Countries"* Review of World Economics (2007), Springer.

argued that China's exports have got the tendency to crowd out the exports of other countries in Asia mainly for the consumer goods and that too by less developed Asian countries who are exporting homogeneous products. Also, China's imports have got a strong tendency to suck up imports coming from the neighbors. This has a direct effect mainly in the markets of capital goods and intermediate goods and that too by relatively advanced Asian economies.

Swapan K. Bhattacharya and Biswa N. Bhattacharyay[11] (2007) revealed with the help of Trade Intensity Indices that regional integration and trade cooperation between India and China can increase the developments that are based on trade and can further expand the trade within the region by using complementarities and comparative advantage. Jeevika Weerahewa and Karl Meilke[12] (2007) numerically estimate the welfare impacts of a probable India China Free Trade Agreement and other regional integrations that are still proposed with the help of GTAP model and suggest that India China FTA would have very small change of welfare to rest of the South Asian countries. J. Mohan Malik[13] (2001) argues that China always demonstrates its determination to continue its involvement in South Asian region and to assure its friends that India China relations would not improve at the cost of its relations with them.

Sumitra Chishti (2000) concludes that quantitatively South Asian countries and China do not have any significant economic relationships, except the fact that the period of 1990s has seen high growth of trade between India and China. There are also some other economic relations such as investment and transfer of technology, especially with India. Aid relationship has also been established between China, Pakistan and Nepal. The South Asian countries also do not depend significantly on China, especially as an export market. Therefore, cooperation in trade may have relevance for China and SAARC only in the long run, since there is a potential.

A commodity level analysis of trade data has been done in this study using HS data at level 2 and SITC data with Revision 3 from United Nations Commodity Trade Data Base for the period of 1990 to 2015. The year 1990 has been taken due to its historical importance as the liberalization was initiated in the same year in India. South Asian countries were selected for the study as India is a South Asian country and the objective of the research was to understand the nature of India and China's trade with the neighboring countries. South Asian countries cover Pakistan, Sri Lanka, Nepal, Bangladesh, Bhutan and Maldives along with India.

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11 Bhattacharaya, Swapan K. and Bhattacharaya Biswa N. *"Gains and Losses of India-China Trade Cooperation-A Gravity Model Impact Analysis"* CESIFO Working Paper No. 1970 (April, 2007), Centre for Economic Studies and the Ifo Institute for Economic Research

12 Weerahewa, Jeevika. Meilke, Karl. *"Indo-China Trade Relationships: Implications for the South Asian Economies"* IATRC, Beijing (2007)

13 Malik, J. Mohan. *"South Asia in China's Foreign Relations"* Pacifica Review (February, 2001), Carfax Publishing

METHODOLOGY

Following three major statistical tools have been used in the paper to find out the results;

A. Constant Market Share Analysis:

Constant Market Share Analysis (CMSA) has been used to analyze the trade pattern of all regional trade with India and China. It's a method, which has been widely applied to many country and regional studies. In its most simple form, the model decomposes export growth into two components: (1) the effect of the increase in total world trade, that is, the expansion effect; (2) the effect of increased competitiveness and therefore the ability to capture a larger share of the markets in the base year, that is, the competitiveness effect.

The first component represents what a country's growth in the exports would have been if it had maintained its export share. The second represents any additional export growth due to changes in relative competitiveness. The competitiveness effect can be further decomposed into a market share growth effect and an interaction effect.

The expansion effect is usually determined by exogenous factors outside the control of exporting countries. Among these factors are, growth of income in destination markets, income elasticity, cross price elasticity, and relative price changes involving complements and substitutes. The competitiveness effect is largely determined by endogenous factors internal to the focus country. Among them are changes in the production level, internal demand, export incentives, and so forth.

In a two-country framework, the export of one country is necessarily the import of the other. Thus, the value of trade is determined by the equality of export supply and import demand. In analyzing the behavior of a country's export, it is necessary to look at both the supply and demand sides.

The constant-market-share model is an attempt along this line, where a country's export is dependent on total imports of the foreign country (demand side variable) and its own share of world exports (supply side variable). Algebraically, we denote the above as:

X_i = export value of home country to the foreign country at time i.

S_i = share of the home (exporting) country to the foreign country's total world imports at time i.

M_i = total world imports of foreign country at time i

By definition,

$X_i = S_i M_i$ for all i

Our concern is to express exports in terms of percentage growth and decompose the sources of growth. To do this, we arbitrarily set i = 0 as the "initial" time period and i =1 as the end period. The end in view is to determine an expansion for $[(Xi - X_0)/X_0]$, which is the ordinary measure for growth rate for exports. Since

$X_1 = S_1 M_1$

$X_0 = S_0 M_0$

It follows that

$$X_1 - X_0 = S_1M_1 - S_0(M_1 - M_0)$$

$$X_1 - X_0 = S_1M_1 - S_0M_0 + S_0M_1 - S_0M_1$$

$$X_1 - X_0 = S_0(M_1 - M_0) + M_1(S_1 - S_0)$$

Dividing the left hand expression by X_0 and the right hand by S_0M_0, we get

$$\frac{X_1 - X_0}{X_0} = \frac{S_0(M_1 - M_0}{S_0M_0} + \frac{M_1(S_1 - S_0)}{S_0M_0}$$

By simple algebraic formulation, it can shown that

$$\frac{X_1 - X_0}{X_0} = \frac{M_1 - M_0}{M_0} + \frac{S_1 - S_0}{S_0}\left(\frac{1 + M_1 - M_0}{M_0}\right)$$

All the entries are now expressed in growth form. Letting the lower case letters x, m, and s represent their respective growth rates,

$$x = \frac{X_1 - X_0}{X_0}$$

$$m = \frac{M_1 - M_0}{M_0}$$

$$s = \frac{S_1 - S_0}{S_0}$$

We arrived at the desired result

$x = m + s(1 + m)$

Where,

x = export growth
m = market expansion effect
$s(1 + m)$ = competitive effect
s = market share growth
sm = interaction effect

The particular idea that must be remembered is that export growth translates into the interplay between the importing country's world import behavior and the exporting country's ability to have its exportable products, become part of the total imports of the other country.

In analyzing the former, the ceteris paribus condition holds, including the initial level of trade share **(S_0)** while the latter examines how the trade share has changed, everything else being constant.

B. **Market Concentration and Commodity Export Specialization Model:**

The main objective of this model is to determine whether the goods country A exports into country B is based on A's ability to export these goods to B per se, or whether country A exports these goods to the world based on her ability and that country B just happens to demand A's exports to the world. This is an important point to make since it answers the questions like, 'Does India export goods to China because they are of special interest to the Chinese specifically, or does the India exports these goods to the world, and China happens to be one of its buyers?'

The question is answered by examining two ratios: the first ratio is the share of each commodity group to total exports of a country to the world and the second ratio is the proportion of each commodity group in the total exports of the home country to the foreign country. In a sense, if changes in the first ratio are significantly responsive to changes in the second, then, the goods in question are being "export-tailored" or "concentrated" by the exporting country to the importing country and not upon the world per se.

The regression equation used is

$$\frac{X_n}{X_t} = a + a_1 GCI_t$$

Where,

X_n = exports of the nth commodity group of country A to the world, where

X_n = *SITC* 0 to 9

X_t = total exports of country A to the world

GCI_t = geographic concentration index at time t

$$= 100\sqrt{\Sigma\left(\frac{y^n}{y}\right)^2}$$

Y^n = exports of country a to country B of commodity group n, where

n = SITC 0 to 9

y = total exports of country A to country B.

If the regression coefficient is significant, then the nth commodity group is specialized as an export good to target country. Otherwise, that particular commodity group is being traded by country of origin to the world at large, of which target country is just a part.

C. Bilateral Revealed comparative Advantage (BRCA)

Revealed comparative Advantage shows the competitiveness of the product in countries export compared to products share in world export.

Bilateral RCA: Competitiveness of country i in a specific market

$$\mathbf{BRCA}_{ij}^{k} = \left(\frac{x_{ij}^{k}}{X_{ij}}\right) / \left(\frac{x_{wj}^{k}}{X_{wj}}\right)$$

Normalized RCA = (RCA-1)/ (RCA+1)

Revealed comparative advantage indices reveals which industries a country has a comparative advantage in producing goods from. The revealed comparative advantage index developed by Balassa (Balassa, 1967) assumes that a country's comparative advantage is revealed by its exports to the world. Comparative advantage depends on pre-trade relative prices. Principal determinants of these unobservable relative prices are resource and factor endowments, stages of industrialization (that is level of technology), and demand (Ariff, Mohamed and Tan EuChye, 1992). Differences in these determinants across countries lead to differences in autarky relative prices across countries. When countries trade, they export the goods in which they have comparative advantage and import those in which they have comparative disadvantage.

RESULTS

It was found that India China trade is growing because their products are needed and demanded in each other's market and they have the capacity and capability to produce the commodities that are consumed in each other's market. On the other hand, trade between India and South Asian countries is based on expansion; since trade around the world is increasing these trades are also increasing, there is nothing special about these trade lanes. In the same way trade between China and South Asian countries is based on expansion. There is no specific demand for their products in each other's market for most of the years of study period.

It has been found with the help of Constant Market Share Analysis that India China trade is based mainly on the competition during the period 1990-2014 as it can be seen in the Tables 1.1 & 1.2 that in most of the years Competitiveness Effect is found to be more than Market Expansion Effect. It implies that trade between India and China is taking place because they have the ability to compete with other countries in the international market for their products. This can also be said that India's exports to China and China's exports to India is taking place at a high growth due more to their own ability to increase their market share in the partner country through factors within their own control, rather than due to the improvements in the market situation of the partner country.

South Asian (excluding India) countries' trade with China is based mainly on expansion as it can be seen in the Table: 1.3 that for most of the years, especially in the recent years Market Expansion Effect is greater than Competitiveness Effect. It implies that South Asian countries are exporting their products to China not due to their ability to compete with other exporting countries to China rather due to the expansion of China's market for imports. Since Chinese demand for imports is increasing, they are importing more from around the world and South Asian (excluding India) happened to be an exporter of intermediate goods to fulfill Chinese demand for import due to the expansion.

Also it can be seen in the Table: 1.4 that South Asian exports to India is based on Market Expansion rather than Competitiveness for most of the years during the period 1990-2014. Due to the large size of Indian Economy, it is importing a lot of products from many exporting countries around the world and South Asian countries have just happened to be one of those exporting countries. South Asia does not have the ability to compete with other countries and make its own share in Indian market through economic factors that are within their own control independent of political factors and bilateral & multilateral tie ups.

Now, it can be easily derived from the above arguments and analysis that since the nature of India China trade is different from the nature of South Asian countries' trade relations with India & China, India-China trade's upward or downward changing trend should not have much of effects at the overall level on the South Asian countries' trade with these two nations.

Table 1.1: Constant Market Share Analysis Results (Indian Exports to China)

Period	1=Comp>Expan 0=Comp≤Expan	Period	1=Comp>Expan 0=Comp≤Expan	Period	1=Comp>Expan 0=Comp≤Expan
1990-91	1	1998-99	0	2006-07	1
1991-92	1	1999-00	0	2007-08	1
1992-93	1	2000-01	1	2008-09	0
1993-94	0	2001-02	0	2009-10	0
1994-95	0	2002-03	1	2010-11	0
1995-96	1	2003-04	1	2011-12	0
1996-97	1	2004-05	0	2012-13	0
1997-98	1	2005-06	0	2013-14	0

Source: United Nations Commodity Trade Data Base

Table 1.2: Constant Market Share Analysis Results (Chinese Exports to India)

Period	1=Comp>Expan 0=Comp≤Expan	Period	1=Comp>Expan 0=Comp≤Expan	Period	1=Comp>Expan 0=Comp≤Expan
1990-91	0	1998-99	0	2006-07	1
1991-92	1	1999-00	1	2007-08	0
1992-93	1	2000-01	1	2008-09	1
1993-94	1	2001-02	1	2009-10	0
1994-95	0	2002-03	0	2010-11	0
1995-96	0	2003-04	1	2011-12	0
1996-97	1	2004-05	0	2012-13	1
1997-98	1	2005-06	1	2013-14	1

Source: United Nations Commodity Trade Data Base

Table 1.3: Constant Market Share Analysis Results (South Asian Exports to China)

Period	1=Comp>Expan 0=Comp≤Expan	Period	1=Comp>Expan 0=Comp≤Expan	Period	1=Comp>Expan 0=Comp≤Expan
1990-91	1	1998-99	0	2006-07	0
1991-92	0	1999-00	0	2007-08	0
1992-93	0	2000-01	0	2008-09	1
1993-94	1	2001-02	0	2009-10	0
1994-95	1	2002-03	0	2010-11	0
1995-96	1	2003-04	0	2011-12	1
1996-97	1	2004-05	1	2012-13	0
1997-98	0	2005-06	0	2013-14	0

Source: United Nations Commodity Trade Data Base

Table 1.4: Constant Market Share Analysis (South Asian Exports to India)

Period	1=Comp>Expan 0=Comp≤Expan	Period	1=Comp>Expan 0=Comp≤Expan	Period	1=Comp>Expan 0=Comp≤Expan
1990-91	1	1998-99	0	2006-07	0
1991-92	1	1999-00	1	2007-08	0
1992-93	0	2000-01	1	2008-09	0
1993-94	1	2001-02	0	2009-10	0
1994-95	0	2002-03	0	2010-11	0
1995-96	0	2003-04	0	2011-12	0
1996-97	0	2004-05	0	2012-13	0
1997-98	1	2005-06	0	2013-14	1

Source: United Nations Commodity Trade Data Base

The overall trade data shows that the trade between India and China is concentrated mainly in few products. China's exports are concentrated mainly on chemicals, manufactured goods and machinery that are SITC (5, 6, 7) and India exports mainly Crude materials, Chemicals and manufactured commodities that is SITC (2, 5, 6).

The composition of Indian exports to China leads us to the question; Does India export certain goods to China because they are of special interest to the Chinese or does it export solely because these products are in demand and China happens to be one of its markets? To answer this question, we shall resort to the market concentration and commodity export specialization model.

Table 2: Results of Market Concentration and Commodity Export Specialization Model

	Commodities Specialized			
Commodities with SITC Revision- 3	India to China	China to India	SA to India	SA to China
a. Food and live animals (SITC0)				☆
b. Beverages and tobacco (SITC1)				
c. Crude materials, inedible except fuel (SITC2)	☆	☆	☆	☆
d. Mineral fuels, lubricants, and related materials(SITC3)				
e. Animal and Vegetable oils and fats (SITC4)	☆			
f. Chemicals and related products (SITC5)		☆		
g. Manufactured goods (SITC6)				
h. Machinery and transport equipment (SITC7)		☆		
i. Miscellaneous manufactured articles (SITC8)				
j. Commodities and transactions n.e.s. (SITC9)		☆		

Source: Analysis of United Nations Commodity Trade Data

Table 2 shows the result of the model; India is "specialized" in the following exports to China: crude materials, inedible except fuel (SITC 2) and animal and vegetable oil and fats (SITC 4). Products other than SITC 2 & 4, however, have no effect on the export composition. The trading of these commodities was done not so much because China was the trade partner but because India primarily sold these products to the world and China was just the part of the world to import the commodities. Even in the absence therefore of economic ties with China, products classified under SITC 1, 3, 5, 6, 7, 8 and 9 would still be traded elsewhere.

In Contrast, exports classified under SITC 2 and 4 were traded not because India trades these products to the world but because China is the market. India would find difficulty in marketing these products if trade ties with China were to be suddenly broken. These commodities are produced especially to be exported to China and if the Chinese market stops importing or consuming these products, Indian producer would find it difficult to switch their export to other countries because these products are not demanded so badly anywhere else in the world or China is the best market to sell those products.

China is specialized in exporting SITC 2, 5, 7, 9 that is these commodities are produced in China especially to be exported to India and if the Indian market stops importing or consuming these products, Chinese producer would find it difficult to switch their export to other countries because these products are not demanded so badly anywhere else in the world or India is the best market to sell those products.

South Asian (excluding India) countries' specialization of exports to China is SITC 0 & 2. It explains that South Asian countries' export specialisation is different from India's export specialisation to China. In the same way, South Asian (excluding India) countries' specialization of exports to India is only for the commodity classified under SITC 2 which means that nature of South Asian countries' export to India is too much different from China's export specialisation to India and that South Asian countries' export to China is too much different from India's export specialisation to China.

Table 3.1: India-China Exports Competitiveness in South Asian Countries (BRCA Results)

Countries	No. of products with Comparative Advantage		% of Commodities with Comparative Advantage	
	India	China	India	China
Pakistan	723	1978	17%	47%
Bangladesh	1287	1935	30%	46%
Sri Lanka	986	1606	23%	38%
Bhutan	601	170	45%	13%
Nepal	1509	738	37%	19%
Maldives	537	650	21%	26%

South Asia	1470	2066	30%	42%
World	1931	2670	40%	56%

Source: Analysis of WITS Data

Table 3.1 shows that if we compare the number of commodities with advantage, China is more competitive than India in South Asian countries like, Pakistan, Bangladesh, Sri Lanka and Maldives except Nepal and Bhutan where India is more Export Competitive than China. Also that India & China are more Export Competitive in the rest of the world than in South Asian countries.

Table 3.2: India-China Exports Competitiveness in South Asia (BRCA Results)

Sectors	No. of Products Exported		No. of products with Comparative Advantage		% of Commodities with Comparative Advantage	
	India	China	India	China	India	China
Animal	223	228	59	14	26%	6%
Chemicals	736	717	288	246	39%	34%
Food Products	199	205	66	19	33%	9%
Footwear	48	47	5	35	10%	74%
Fuels	41	40	18	6	44%	15%
Glass	183	183	51	102	28%	56%
Hides & Skin	61	60	5	17	8%	28%
Machine & Electronics	773	768	182	421	24%	55%
Metals	540	538	190	287	35%	53%
Minerals	88	86	40	6	45%	7%
Others	352	346	44	196	13%	57%
Plastic & Rubber	210	210	63	99	30%	47%
Textile & Clothing	786	785	245	476	31%	61%
Transport	119	118	46	41	39%	35%
Vegetables	328	320	116	30	35%	9%
Wood	226	225	52	71	23%	32%
Total	**4913**	**4876**	**1470**	**2066**	**30%**	**42%**

Source: Analysis of WITS Data

Table 3.2 shows that India is more competitive than China in overall South Asian market in the sectors; Animal, Chemicals, Food Products, Fuels, Minerals, Vegetables and Transport as it has higher ratio of products with comparative advantage among the total products that is being exported by India to these countries. In the same way, China is more competitive than India in overall South Asian market in the sectors; Footwear, Glass, Hides & Skin, Machine & Electronics, Metals, Plastic & Rubber, Textile & Clothing, Wood and Others. Almost same is the distribution of sectors between India and China if compared in the rest of world.

CONCLUSION

It was found with the help of Constant Market Share Analysis (CMSA) that India China trade is the only trade lane among the trade lanes analyzed in this study that is mainly based upon competitiveness effect. Rest of the trade relations in the region such as India-South Asia and China-South Asia are based mostly on expansion effects that is these trades are taking place due to the factors which are not under the control of the exporters.

Export Specialization and Market Concentration Model differentiates between the Specialized and Non-Specialized commodities of export for an exporter. It was found that India, China and South Asian countries (excluding India) have got export specialization in different commodities and this minimizes the competition among them at the overall level.

Growing China's exports to India requires more production in China and to produce more goods to fill the demand of Indian market, China requires more of raw material and intermediate goods that are partially imported from South Asian countries. Indirectly, the high volumes of Indian imports from China have positive effect on South Asian and countries' exports to China.

India has stronger trade ties with Sri Lanka, Nepal, Bhutan, Maldives compared to China and China has stronger trade ties with Pakistan and Bangladesh compared to India. Also that China is more competitive than India in South Asian countries like, Pakistan, Bangladesh, Sri Lanka and Maldives except Nepal and Bhutan where India is more Export Competitive than China. India & China are more Export Competitive in the rest of the world than in South Asian countries

India is more competitive than China in overall South Asian market in the sectors; Animal, Chemicals, Food Products, Fuels, Minerals, Vegetables and Transport. China is more competitive than India in overall South Asian market in the sectors; Footwear, Glass, Hides & Skin, Machine & Electronics, Metals, Plastic & Rubber, Textile & Clothing, Wood and Others. Almost same is the distribution of sectors between India and China if compared in the rest of world.

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Demonetisation: An Imapct Analysis

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ABSTRACT

The decision of the Government to cancel the legal tender character of Rs. 500 and Rs. 1000 bank notes with effect from November 9, 2016 was bold and unprecedented. Withdrawing 86 percent of the currency from an economy with over 96 percent transactions in cash has caused disruption in the overall economic activities across all sectors causing a lot of hardship for the public at large. Aimed at addressing corruption, black money, counterfeit currency, terror funding and encourage digital transactions, it has impacted adversely the economy in the short-run. From a socio-cultural standpoint, demonetisation has scored a point for the Government as public in general has accepted the hardship as the short term pain in anticipation of long term gain of curbing black money and corruption. Although comprehensive long term impact of demonetization measures at this stage cannot be tally ascertained, the possible medium to long-term gains for the economy would range from a decrease of unaccounted transaction, counterfeit currency, effective tax collection, higher volume of bank deposits, and so on. Above all it has provided a big push to the digitisation of cash transactions which is a move towards cash less economy. Based upon the data available up till end April 2017, this paper attempts an objective assessment of the present demonitisation process which has had its own impact on the economy. Given the partial information that is available post-demonetisation so far, the observations can be only preliminary in nature.

Keywords: Currency, Demonetisation, Black Money, Tax Evasion, Corruption, Re-monetisation, Cash Economy, Digitasation, Less Cash Economy, Cash less Economy

INTRODUCTION

Demonetisation is the stripping a currency unit of its status as legal tender. Demonetisation takes place when there is a change of national currency. The old unit of currency has to be retired and replaced with a new unit of currency. It include either introducing new notes or coins of the same denomination or completely replacing the old denomination with the new denomination which is often carried out as an ambush on the black money and market. The opposite of demonetisation is called as remonetisation in which a form of

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payment is restored as legal tender. Currency is a commonly accepted form of money, including coins and paper notes, which is issued by the government and circulated within the economy. Being a medium of exchange for goods and services, currency forms the basis for any trade.

The currency or legal tender is issued by a country's central bank or a monetary authority. The national currency of a country is usually the principal currency used for most of the financial transactions in that country. Basically each country has its own currency as Switzerland's official currency is the Swiss Franc, and Japan's official currency is called the Yen. An exception would be the euro, which is used as the currency for a group of European countries called European Union. In India the currency is called the Indian Rupees (INR). In most of the cases, the central bank of the country has the absolute right to issue money or the currency for circulation.

DEMONETISATION IN INDIA

The legal basis for the demonetisation of currency/coin can be found in Section 26 (2) of the Reserve Bank of India Act, 1934. Under this Section, the Union Government is given the power to declare that any notes/coins issue by the Reserve Bank will no longer be legal tender. The only procedural requirement is that the Board of the RBI recommends the same to the Union Government.

Recent past instances of demonetisation in India are as follows:

1. On January 12, 1946, notes of denomination of Rs. 500, Rs. 1000 and Rs. 10000 notes were declared invalid as a legal tender and new notes of Rs. 1000, Rs. 5000 and Rs. 10000 were introduced in 1954.
2. On January 16, 1978, the then Janta Party coalition government demonetised bank notes of Rs. 1000, Rs. 5000 and Rs. 10000.
3. On November 8, 2016, the most recent, the old bank notes of Mahatma Gandhi Series Rs. 500 and Rs. 1000 were barred from being legal tender. Alternatively, new Rs. 500 and Rs. 2000 banknotes of the Mahatma Gandhi New Series have been issued in exchange for the above mentioned old currency notes.

NEED AND IMPORTANCE OF DEMONETISATION IN INDIA

Nations demonetise their local units of currency for various reasons. They include combating inflation, corruption, and to discourage a dominative cash system. The Government claims that the recent demonetisation effort has been aimed to stop the counterfeiting of the current currency notes allegedly used for funding terrorism across the border by the neighbouring countries, and as an attack on the black money in the country. The move was claimed as an initiative to curb corruption, trafficking of drugs, and smuggling across borders. According to the Government, the supply of currency notes of all denominations has seen an increase by about 40% during the period between 2011 and 2016, the Rs. 500 and Rs. 1,000 denomination notes has increased by 76% and 109% respectively during this period due to forgery. This forged cash is allegedly used to fund various terrorist activities against India. The outcome of the decision is to eliminate the currency notes of selected denominations has been taken.

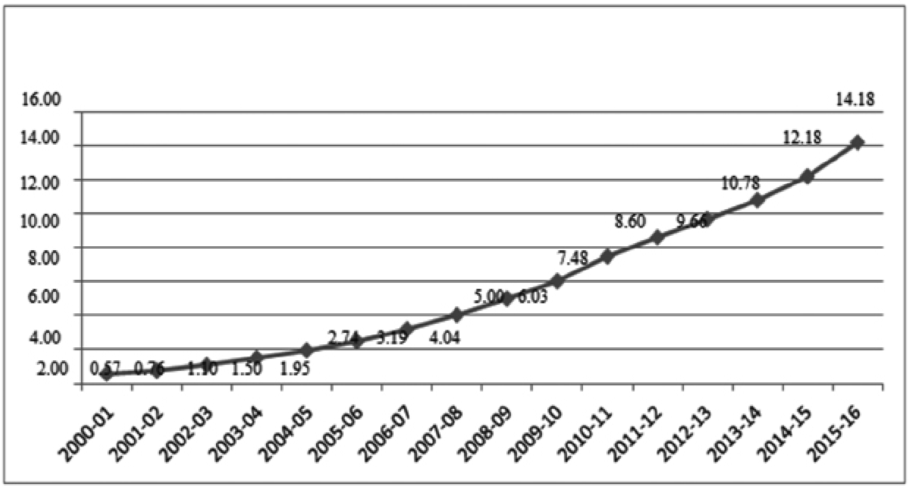

Chart 1 Rs 500 and Rs 1000 Notes: From 25% to 85% of Cash Economy in India

The Government's aim was to wipe out the counterfeit currency, scrap tax evasion, abolish black money generated out of money laundering and terrorist funding activities, and to promote a cashless e-economy. By announcing the larger denomination notes to be useless, the individuals and various black money launderers with huge collection of black money generated from the parallel black cash systems were affected and made to convert the cash money through a banking system which requires tax information from the entity. In case, if the entity is not providing any proof of paying any tax on the cash, a 200% penalty of the tax owed was imposed. Besides combating black money, the purpose mentioned is also to curb fake currency (financing terrorism) and also corruption.

IMPACT OF DEMONETISATION, 2016

Soon after the announcement of demonetisation, banks and ATMs across the country were paralysed due to shortage of cash. Over 96 percent of transactions in India are made through cash and 86 percent of the currency (Rs. 500 and Rs. 1000) were declared 'invalid'. Chaos and Confusion were witnessed everywhere and mostly people holding old currency notes faced numerous difficulties in having them exchanged. People in general faced a lot of hardship throughout the country and deaths due to cash crunch were also reported. Endless queues outside banks and ATM counters were observed. Further, functional banks and ATMs also ran out of cash because of heavy pressure of transactional volumes (ATMs in India has the dubious distinction of remaining non-functional for numerous reasons, technical snag being the prominent one).

Evading techniques like purchasing of gold, multiple bank transactions, laundering through the north-eastern route, railways and airline booking, municipal and local tax payments, advance payments to staff and workers, depositing in the Jan-Dhan Scheme, backdated accounting, and so on were also reported across the country. At the same time, dumping 'invalid' notes in rivers, ponds and garbage bins occupied headline news in the media during the initial days of demonetisation.

The unexpected and sudden announcement of demonetisation has had a 'knee jerk' reaction on the level of economic activities in the country. All the cash dependent consumptions led sectors such as retail, wholesale, jewellery, hospital, healthcare, diagnostics, trading, transport, restaurants, logistics were severely affected. Real estate and construction sector also was affected jeopardising millions of construction jobs, since majority of the country's labour force is employed in these sectors collectively. Demonetisation has led to hardship for the informal sector employees, small and medium enterprises and farmers. The informal sector in India provides 80 percent employment and contributes 45 percent of GDP and the impact of cash crunch has been severe. The impact of demonetization can be seen from the following table:

IMPACT OF DEMONETISATION			
Variables	**Immediate Impact**	**Medium/ Long-term Impact**	**Over-all-term Impact**
GDP	Negative	Net positive	Positive
Inflation	Downward pressure on prices	Neutral	Neutral
Liquidity	Positive	Neutral	Neural
Currency Circulation	Negative	Neutral	Neutral
Fiscal Deficit	Negative	Positive	Positve
Current Account Deficit	Positive	Negative	Negative
Digital Payments	Positive	Positive	Positive

Throughout the country, demonetisation affected people leading to various problems like family functions like marriages, or in rural and urban areas where economic activity is totally based on cash, people found themselves cashless for the purchase of agricultural inputs and no market for the ultimate produce. Even big industry houses like Tata Steel admitted that the sector has been hit by Demonetisation inversely.

One of the prominent reasons of recently announced to address to the problem of corruption and black money. However, reports suggest otherwise. Central Board of Direct Taxes (CBDT) in 2012 has clearly stated that demonetisation may not be a solution for tracking black money or economy which is largely held in the form of *benami* properties, bullion and jewellery. It is well supported by data from income tax probes, black money holders keep only 6 percent or less of their ill gotten wealth as cash. Thus, targeting the cash economy for eliminative or controlling the black money in fact, cannot be a successful strategy. As per the World Bank estimates, India's black economy is in the range of 21-23 percent of its GDP (World Bank estimate 2007: 23.2%). In present GDP terms, the black economy could be approximately Rs. 6,800 billion (2016 3rd Quarter estimate of GDP Rs. 29,628 billion). However, approximately 70% of the black assets Rs. 4,800 billion are estimated to be parked overseas leaving approximately Rs. 2,000 billion in the country, of which 5% to 6% are held in cash (data compiled for Income Tax raids). However, the demonetisation protagonists, argue that if sudden shortage of money has freezed the economy as a whole temporarily, the same is more true for the black economy. Further, the value of real wealth that has been acquired using black money also drops, since in the absence of cash its resale value drops as well. Not surprisingly, *pundits* predict a steep drop in the market for property, gold and luxury goods. This effectively will lead to a redistribution of wealth. Further, it is argued that the process of demonetisation might have lead to erosion of black money on the wealth of smaller offenders – the government *babus* (officers) who might have received their 'booty' in cash.

Another argument advocated in favour of demonetisation is that it is meant to eliminate counterfeit currency and funding of illegal activities. There is no doubt that at least in the short run, demonetisation has put a brake on this. Critics of demonetisation argue that only an insignificant fraction of currency is actually counterfeit. As per the Indian Statistical Institute, Kolkata, counterfeit currency in circulation is estimated to b Rs. 400 crores, only 0.028 percent of the demonetised currency. Thus, it cannot be a primary reason for demonetisation. Moreover, counterfeit of the newly introduced notes has already been observed in many parts of the country. Thus, demonetisation has only caused a temporary disruption to the process of counterfeiting and funding of illegal activities including terror funding. A resurgent of the above phenomenon is also witnessed in recent days.

INDIA'S CASH ECONOMY

India is a cash intensive economy with a whopping 12% of the GDP existing in the form of currency notes and coins in circulation. The ratio of money held in currency notes and coins to the amounts held in bank deposits is 51:49. Across all categories, citizens to businesses still prefer cash to other modes of payment. Cash transactions are free, finally irrevocable and instant. Cash is the most preferred mode of payment in India due to habits, poverty, illiteracy and most importantly, lack of easy access to the banking system. Most Indians lack the means to use non-cash payment alternatives due to the low penetration of banking facilities in the country.

Approximately, 87% of the total transactions in India were in cash in 2015. This implied that demonetisation have sucked out most of the cash from the economy, leaving the cash economy gasping for breath. A significant portion the rural, semi – urban and migrated urban India thrives on cash economy which gives them extremely efficient options of earning their livelihood besides speed and resiliency in transaction. Demonetisation, in fact, disturbed the national flow of the cash economy in the country which is very much a part of the mainstream economy.

One of the objectives of demonetisation was to push digital transactions. Pre-demonetisation 98% of the volume of transaction and 68% of values are trasacted in cash. Even if the numbers of cash transactions are reduced by 10% in the next few months, the country will continue to be predominantly cash dependent. Besides, the move towards digitization depends on the issues with the availability of power, internet connectivity and bandwidth. Pushing the cash dominant Indian economy to a 'less cash' economy is not easy at all. After demonetisation, a sharp rise of 36% was seen in mobile banking transactions. In January, 2017 debit card transaction surpassed the credit card usage for the first time, signaling a great shift. But digital transaction has shown decline since February, 2017. This clearly indicates along with remonetisation, India is gradually inching towards cash economy.

India today, even in the rural areas, is not the same as it was twenty years ago. Bank account holding as well as access to credit has made great inroads. Still keeping in view of the nearly 125 crore population, only a small percentage of the population are having bank accounts. The fact of the matter is that a large section of the population remains outside the ambit of technology.

The move towards 'less cash' economy where digital transactions dominate needs some radical policy initiatives, which includes the cost of digitisation, which should not be forced on citizens. These costs relate to connectivity, charges by financial service providers, danger of security breaches, invasion of privacy of the transaction, and so on. The apparent advantages of digital money over paper currency is considerably offset by the charges of digital transactions which remains anywhere between 1% and 4% of transaction value. Paper currency runs the risk of being counterfeited whereas digital money is vulnerable to various security risks. Still moving into cash less infrastructure is not impossible. It needs to be noted have that even if digital payments are encouraged, a substantial cash economy will continue to exist, especially in large parts of the informal sector.

SUMMING UP

Economic decisions of any kind have got costs that are immediate, obvious and asymmetrical. The gains, on the other remain diffuse and often hard to measure. Besides, in a democratic setup, any such policy has its own socio-cultural dimensions too. In case of the recent demonetisation process, the rhetoric narratives of the proponents and opponents ranged between two extremes; 'historic' and 'unprecedented attack on black economy' to 'monumental blunder' and 'organised loot'. Admittedly, demonetization remains one of the bold and landmark policy decision in the economic history of India.

Before taking up a realistic assessment of the demonetisation process, it would be appropriate to provide backdrop to this economic strategy. Historical data clearly state that no country till date have efficiently handled demonetisation. By any reckoning, demonetisation is a double edged economic strategy having its own set of benefits and limitations. The intention of a black money free economy or cleanse the economy by the present dissension is a noble one. However, the mechanism (in this case demonetisation) through which the menace is addressed has to be precise and less painful to a large section of the population. Unfortunately, the current Demonetisation has more or less failed on this count; The whole scheme was unplanned which is evident by the simultaneous notification and announcements made by RBI. Similiarly despite best efforts, majority of the population has gone through a severe period of hardship in the beginning days of demonetisation. The preparedness of Government and the banks regarding the implement action such a historic move has come to be questioned.

Interestingly, from a socio-cultural standpoint, demonetisation has captured the minds of a majority, particularly the middle class, and poorer sections. It has influenced their imagination so much that despite the 'suffering' arising out of demonetisaion for a substantial period of time, they still considered the experience as a 'necessary pain' that has to be endured for realising the long term gains of curbing black money. Demonetisation has established that people across all categories of age, and income are ready to suffer through inconveniences so that corruption can be brought under control. In short, 'to cleanse the economy' objective of demonetisation has captured the public imagination. Therefore, the Government has been able to sail through the economic mayhem of demonetisation without much public outrage and protest. Further, the process established the ruling dispension *albeit* its leaders capable of making bold decisions and implement the same. Given the information available so far, the impact of the demonetisation can be assessed on two counts; short and medium.

- In the short run, demonetisation has put the cash economy of India to a halt temporarily. In the beginning i.e. during November and December, 2016 it was severe on small traders, roadside vendors, low paid job workers, construction workers. In short, on all those who mainly transacted on cash only. Agriculture sector faced a lot of hardship both for in respect of procurement of inputs and sale of produce. However, things gradually eased from January onwards with an accelerated pace of remonetisation. Similarly, sectors like auto and auto ancillary, infrastructure, real estate, jeweler, trading, construction which provide employment to a majority of the labour force have been hard hit because these sector.
- It is expected that by end May, 2017 the replacement (remonetisation) process will be completed and the extent to which currency in circulation is extinguished will be known. While it has been argued that the cash that would be extinguished would be the black money and should be rightfully extinguished. However, this argument is based on impressions rather than on facts. In many cases, and as a matter fact also, it is possible that these cash balances were used as a medium of exchange. In other words, while the cash was mediating in legitimate economic activities, if this currency is extinguished there would be contraction of economic activity in the economy.
- Large scale shift of the informal sector to formal sector because of demonetisation may not happen as expected. Merely access to credit might not

be adequate to alter the *status quo*. A majority of the tiny, micro enterprises still continue in the unorganised sector. Unless and until there are some strong 'push' and 'pull' factors (ease of doing business, access to easy credit, etc.) are devised, these are most unlikely to move to organized sector.

- Demonetisation has brought into focus the individuals and businessmen who concealed their income before demonetisation. The Income Tax Department has identified more than 18 lakh bank accounts in which more than Rs. 5 lakh was deposited in demonetised notes. In contrast, during the last two years before demonetisation, IT department has identified only Rs. 31,000 crore unaccounted income. The Government expects that the revenue gains on account of demonitisation for 2017-18 will be around Rs. 1 lakh crore. Besides, the income tax base will also widened in future.
- RBI expects to remonetise the entire demonitise currency by May-end. Pushing into the economy high denomination Rs. 2000 notes has resulted into substantial saving arising out of printing of currency notes. In short, the volume of printed notes would be less. The SBI Research Report suggests that RBI may save about Rs. 1000 crore on account of printing cost of notes.
- As of now, digitisation seems to be the most visible benefits of demonetization. It has provided the big 'push' towards digitisation of cash transactions. This will boost financial inclusion and digitisation leading to a less cash economy in the long run. However it should be clear that India do not have much chance to cashlessness in near future. Given the fact that Indian economy is in the inception category (Master Card report on Measuring progress towards a Cashless Society – Thomas, 2013) at 2% of consumption payment transactions done using non-cash methods as compared to advanced category cases of Singapore (61%), Netherlands (60%), France (59%) and Sweden (59%). Besides, financial inclusions of the masses are still in progress. Tele-density of 83% (which is considered as a part of digital transactions) has to be scaled down considerably because of multi-sim users and defunct numbers. Thus the move towards less cash economy has begun only.
- As a result of demonetisation and increased deposit with banks, the bank deposit base has increased significantly. Consequently, financial savings are expected to increase as a result of the shift from unproductive physical asset based savings to interest bearing financial assets. This in turn, is expected to enhance the liquidity position of banks, which can be leveraged for lending purposes. It is however, not correct to assume that expansion of credit will definitely materialise since the demand for credit during the last two year has remained sluggish. In comparison to a C/D radio of 1.53 in 2011-12, the figure for 2014-15were as low as 0.54. Thus, in a situation where demand for credit is rather low, bank will be forced to lower the interest rates. In case demand for credit remains insensitive to interest rates, banks will be forced to explore alternative avenues, often risky and volatility assets, to park their funds. This may lead to a substantial increase of the NPA for the financial sector in coming years.
- Admittedly, the long term impact of demonetisation might be hard to assess in real terms. The most pertinent question is that once the liquidity comes

back to the economy, will there be reforms in real terms as projected or will the global reputation of Indians being 'ingenuity' and 'jugad' will come handy to game the system as it happened after demonetisation of 1978.

- Finally, our entire monetary system depends upon trust and the banknote is the visible instrument of trust. Demonetisation move has shaken that trust.

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Analysing the Role of Startup India Initiative in Promoting Entrepreneurship

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ABSTRACT

The best time for starting and doing business is now, thanks to the various initiatives undertaken by the Government to facilitate and promote, entrepreneurs, especially at small and Start-up Level. These are the crucial steps in promoting and nurturing the spirit of Innovation & Entrepreneurship and transforming the Job Seekers into Job Creators. This paper aims to develop a conceptual framework which examines the role of government initiative like Startup India in building a strong eco-system for nurturing innovation and home grown Startups in the country that will drive sustainable economic growth and generate large scale employment opportunities. Government through this initiative aims to provide major impetus to startups through simplified tax structure, easy compliance process and single window system.

Keywords: Startup, Entrepreneurship, Incubator, Ecosystem

INTRODUCTION

Over the last few years startups have been the cynosure of the Indian business environment. This has resulted into the emergence of a number of home grown startups across the country. Multiple indicators point to the fact that this ecosystem is not only undergoing rapid evolution, but is also becoming increasingly attractive, thereby enhancing the lifestyle of citizens, creating innovative technology solutions that address key issues that India face in the socio-economic fronts like power, healthcare, employment, and education.

In recent years, Government has taken several strategic initiatives such as 'Start-up India, Stand up India', 'Make in India', 'Skill India', 'Digital India' to provide impetus and boost the spirit of entrepreneurship and investments in the country. With these initiatives Indian startup ecosystem has evolved, being

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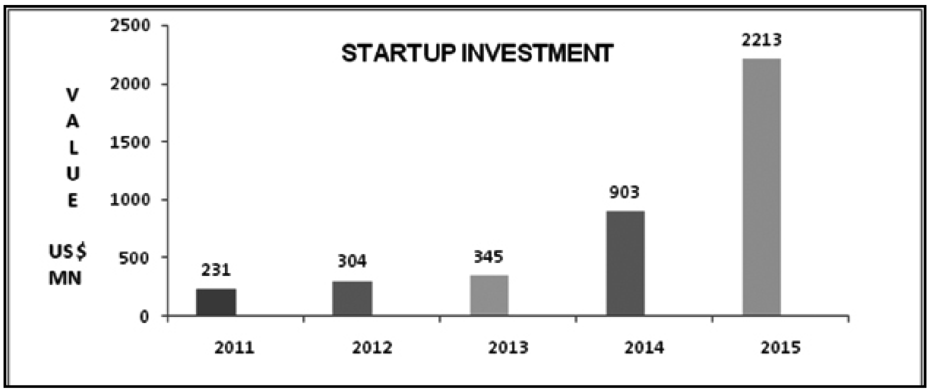
driven by factors such as growth in number of funds/angels, evolving technology, higher smart phone and social media penetration, growth in incubators and accelerators, younger demographics etc. Further, the government has joined hand with various stakeholders like corporate, research & educational institutions, financial entities, etc. to develop a better entrepreneurial ecosystem and transform India to a startup hub. Investment momentum in startups has increased rapidly over the last five years with investment values increasing from US $ 231 Million in 2011 to US $ 2213 Million in 2015, a CAGR of more than 55 percent. With the extraordinary increase in the seed/angel investments the Prime Minister launched "Start-up India, Stand up India" in 2015.



*Source: Grant Thornton report 2016

OBJECTIVE OF THE STUDY

The overall objective of the study is to examine the role of startup India initiative in promoting entrepreneurship in the country. The objective of study is demarcated below:

1. To analyze the support system for entrepreneurs in India
2. To evaluate the role of startup India initiative in promoting entrepreneurship
3. To assess the support provide by the government under the Startup India initiative

Methodology and Data Base

In pursuance of above objectives the following methodology was used for this study.

The objectives of the study were achieved through collection and analysis of secondary Data. The secondary data has been mainly drawn from various records and publications of Department of Industrial Policy & Promotion, Ministry of Corporate Affairs, Startup India, Khadi & Village Industries Commission, Journals and websites of government and non government organization.

LITERATURE REVIEW

It has been established that entrepreneurship is a very vital ingredient for job creation as well as economic development [Friedman, B.A, 2011] but it is a known fact that when someone starts a new enterprise or tries to get into entrepreneurship they face many problems like finance, land permissions, environmental clearance, foreign investment proposals, family support etc. [Dutta. A.; 2016] It is assumed that since government is in the lead for entrepreneurial development, it should provide the much needed resources within its capability [Obaji.N. O & Olugu.M.U; 2014]. Therefore the government with the intention to build a strong eco-system for nurturing innovation and Startups in the country, the Hon'ble Prime Minister launched Startup India Action Plan on January 16, 2016 in New Delhi. The Government through this initiative aims to empower startups to grow through innovation and design and to accelerate spreading of the startup movement in the country.

In India Startup means an entity, incorporated or registered in India not prior to five years, with annual turnover not exceeding INR 25 crore in any preceding financial year, working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property. Startup policy was introduced to provide hand-holding support to entrepreneurs to promote enterprise creation [Mohanty. *K. S*., 2017]

Governments under the prevalent startup India initiative have undertaken various measures to promote entrepreneurship such as adoption of electronic systems for granting clearances, reducing number of procedures necessary to obtain clearances and amendment of acts, rules, wherever necessary.

Since the launch of the scheme till 15 March, 2017 a total of 1835 applications have been filed for startup, out of which 713 had the required documents and have been recognized as Startups by Department of Industrial Policy & Promotion. Rest of the applicants would be provided guidance and support by the Startup India Hub to submit the relevant documents.

The government has created a corpus of Rs 10,000 crores to support innovation driven Startups which will be managed by SIDBI. So far, Rs 129 crores have been sanctioned by SIDBI to various Venture Funds. Though the startup movement was not restricted to IT sector and was meant for overall industry sector, yet the numbers reflect the predominance of IT sectors to other sectors, such as agriculture, manufacturing, social sector, healthcare, education and so on [OECD 2017] but still it creates far more e-commerce and internet-related business because IT related business model can show return in the short term, as against to agriculture and manufacturing startups since these sectors needs huge initial capital requirement and generate revenue in the long run as compared to IT sector.

ABOUT STARTUP INDIA

Startup India is a flagship initiative of the Government of India, intended to build a strong eco-system for nurturing innovation and Startups in the country that will drive sustainable economic growth and generate large scale employment opportunities. The Government through this initiative aims to empower Startups to grow through innovation and design.

It seeks to fostering entrepreneurship sprit and innovation by creating an ecosystem that is conducive for growth of Startups. The objective is that India must become a nation of job creators instead of being a nation of job seekers. In order to meet the objectives of the initiative, Government of India has announced Action Plan that addresses all aspects of the Startup ecosystem. Action Plan lists out a comprehensive set of structural and regulatory reforms in order to achieve Start-Up India[1]. The Action Plan for the Start Up India is divided into following 4 areas:

- Definition of Start Ups
- Simplification and Handholding
- Funding support and incentives
- Industry – Academia partnership and incubation

DEFINITION OF START UPS

A strong point of the Action Plan is a clear definition of what a Start-up is. The document says a Start-up is "an entity, incorporated or registered in India not prior to five years, with annual turnover not exceeding Rs 25 crore in any preceding financial year, and working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property." [1]A Start-up would cease to be a Start-up the day it completes five years from the date of incorporation or registration.

The definition makes it clear that a Start-up should have something new to offer by way of product or service, and this effort should involve technology or intellectual property, confirming thereby the spirit and achievement of innovation of the young entrepreneur. To keep any doubts away, the Action Plan says that an entity "should not be formed by splitting up, or reconstruction, of a business already in existence." This means that an entity to take benefit of the scheme has to be new and original, and existing units cannot be broken into smaller entities to take advantage of the scheme.

SIMPLIFICATION AND HANDHOLDING

To ease the procedures for registering a new venture or closing it, coupled with a simplified compliance regime. The government has device the Action Plan which has met this expectation and reduced the Start-ups' regulatory burden, thereby allowing them to focus on their core business while keeping compliance cost low.

Compliance Regime

Regulatory formalities regarding labour and environment laws are time consuming and difficult in nature. Often, new and small firms are unaware of nuances of the issues and can be subjected to intrusive action by regulatory agencies. In order to make compliance for Startups friendly and flexible, simplifications have been done in regulatory regime.

Accordingly, the process of conducting inspections shall be made more meaningful and simple. Startups shall be allowed to self-certify compliance (through the Startup mobile app) with 9 labour and environment laws. In case of the labour laws, no inspections will be conducted for a period of 3 years. Startups may be inspected on receipt of credible and verifiable complaint of violation, filed in writing and approved by at least one level senior to the inspecting officer. In case of environment laws, Startups which fall under the 'white category' (as defined by the Central Pollution Control Board (CPCB)) would be able to self-certify compliance and only random checks would be carried out in such cases.

Start-up India hub

An all-India hub will be created as a single contact point for start-up foundations in India, which will help the entrepreneurs to exchange knowledge and access financial aid. The "Startup India Hub" will be a key stakeholder in the vibrant ecosystem and will:

- Work in a hub and spoke model and collaborate with Central & State governments, Indian and foreign VCs, angel networks, banks, incubators, legal partners, consultants, universities and R&D institutions
- Assist Startups through their lifecycle with specific focus on important aspects like obtaining financing, feasibility testing, business structuring advisory, enhancement of marketing skills, technology commercialization and management evaluation
- Organize mentorship programs in collaboration with government organizations, incubation centers, educational institutions and private organizations who aspire to foster innovation.

Online Portal

To commence operations, Start-ups require registration with relevant regulatory authorities. Delays or lack of clarity in the registration process may lead to delays in establishment and operations of Start-ups, thereby reducing the ability of the business to get bank loans, employ workers and generate incomes. Enabling registration process in an easy and timely manner can reduce this burden significantly To meet all these requirements, the Government has introduce a Mobile App to provide on-the-go accessibility for registering Start-ups with relevant agencies of the Government. A simple form shall be made available for the same. The Mobile App shall have back-end integration with the Ministry of Corporate Affairs and the Registrar of Firms for seamless information exchange and processing of the registration application. The app will facilitate tracking the status of the registration application, downloading of the registration certificate, to file for compliances and obtaining information on various clearances/ approvals/ registrations, etc. as required.

Patent Protection

A fast-track system for patent examination at lower costs is being conceptualized by the central government. The objective is to promote awareness and adoption of IPRs by Startups and facilitate them in protecting and commercializing the IPRs by providing access to high quality Intellectual Property services and resources, including fast-track examination of patent applications and rebate in fees.

Ease Norm for Public Procurement for Startups

To provide an equal platform to Startups in tenders floated by a government entity, it mandates to such entity whether Central Government, State Government or PSUs to procure at least 20% from the Micro Small and Medium Enterprise (MSME). This is implemented to promote Startups. Government has exempted Startups in the manufacturing sector from the criteria of "prior experience/ turnover" without any relaxation in quality standards or technical parameters. The Startups will have to demonstrate requisite capability to execute the project as per the requirements and should have their own manufacturing facility in India.

Rapid Winding Up for Startups

In the event of a business failure, entrepreneurs can wound up operation within a period of 90 days from making of an application for winding up on a fast track basis. The objective is to promote entrepreneurs to experiment with new and innovative ideas, without having the fear of facing a complex and long-drawn exit process where their capital remain interminably stuck.

FUNDING SUPPORT AND INCENTIVES

One of the key challenges faced by Start-ups in India is access to finance. Often Start-ups, due to lack of collaterals or existing cash flows, fail to justify the loans. Besides, the high risk nature of Start-ups wherein a significant percentage fail to takeoff, hampers their investment attractiveness. Therefore to meet the funding requirements government has taken down various initiatives.

Creation of Corpus Fund

One of the key challenges faced by Start-ups in India has been access sto finance. Often Start-ups, due to lack of collaterals or existing cash flows, fail to justify the loans. Besides, the high risk nature of Start-ups wherein a significant percentage fails to takeoff hampers their investment attractiveness. To provide funding support for development and growth of innovation driven enterprises, the Government has set up a fund with an initial corpus of INR 2,500 crore and a total corpus of INR 10,000 crore over a period 4 years. The Start-ups will have the benefit of a credit guarantee fund too. The idea is to catalyse entrepreneurship by providing credit to innovators across all sections of society. To overcome traditional Indian stigma associated with failure of Start-up enterprises in general and to encourage experimentation among Start-up entrepreneurs through disruptive business models, credit guarantee comfort would help flow of Venture Debt from the formal Banking System. Debt funding to Start-ups is also perceived as high risk area and to encourage Banks and other lenders to provide Venture Debts to Startups, Credit guarantee mechanism through National Credit Guarantee Trust Company (NCGTC)/ SIDBI is being envisaged with a budgetary Corpus of Rs 500 crore per year for the next four years. This measure will surely open new sources of funding for the Start-ups.

Tax Exemption on Capital Gains

Due to high risk nature, Startups are fails to attract investment in their initial stage. Therefore the government has exempted tax on capital gain invested by the individuals in the startup ecosystem. Further, existing capital gains exemption for investment in newly formed manufacturing Micro, Small and Medium Enterprises (MSMEs) by individuals shall be extended to all Startups. Investment in 'computer or computer software' as used in core business activity shall also be considered as purchase of 'new assets' in order to promote technology driven Startups.

Tax Exemption to Startups

During the initial years of startup, nascent entrepreneurs fear the feasibility of their business idea due to capital invested in the ever ever-changing technology, rising competition with the competitor, navigating through the unique challenges arising from their venture and limited alternative sources of finance available to the small and growing entrepreneurs which is leading to constrained cash funds. Therefore, to promote startups and addressing working capital requirements, the government has taken initiative to exempt startsups from income-tax for a period of 3 years. This fiscal exemption will facilitate growth of business and meet the working capital requirements during the initial years of operations.

Industry – Academia Partnership and Incubation

A pivotal component for growth of start-ups is regular communication and collaboration within the start-up community, both national and international. An effective start-up ecosystem cannot be created by the start-ups alone. It is dependent on active participation of academia, investors, industry and other stakeholders. Therefore to boost the Startup ecosystem government has collaborated with academia, investors, industry and other stakeholders.

Showcasing Innovation

To bolster the start-up ecosystem in India, the Government is proposing to introduce start-ups fests at national and international stages. These fests would provide a platform to start-ups in India to showcase their ideas and work with a larger audience comprising of potential investors, mentors and fellow start-ups.

As part of 'Make in India' initiative, the Government proposes to:

- Hold one fest at the national level annually to enable all the stakeholders of start-ups ecosystem to come together on one platform.
- Hold one fest at the international level annually in an international city known for its start-up ecosystem. The fests shall have activities such as sessions to connect with investors, mentors, incubators and start-ups, showcasing innovations, exhibitions and product launches, pitches by start-ups, mentoring sessions, curated start-ups walks, talks by disruptive innovators, competitions such as Hackathon, Makerspace, and so on, announcements of rewards and recognitions, panels and conferences with industry leaders, and so on.

Self-Employment and Talent Utilization (SETU) Programme

The Government of India has launched Atal Innovation Mission (AIM) with Self-Employment and Talent Utilization (SETU) Programme to serve as a platform for promotion of world-class Innovation Hubs, Grand Challenges, start-ups businesses and other self-employment activities, particularly in technology driven areas. The Atal Innovation Mission (AIM) shall have two core functions:

- Entrepreneurship promotion through Self-Employment and Talent Utilization (SETU), wherein innovators would be supported and mentored to become successful entrepreneurs.
- Innovation promotion to provide a platform where innovative ideas are generated.

Incubator Setup

To ensure professional management of Government sponsored/ funded incubators, Government has created a policy and framework for setting-up of incubators across the country in public private partnership. Currently, India lacks availability of incubation facilities across various parts of the country. Incubation facilities typically include physical infrastructure, provision of mentorship support, access to networks, access to market, and so on. Of all these features, physical infrastructure entails large capital investments which can generally be facilitated by the Government. However, requisite skills for operating an incubator are pivotal as well, for which expertise of the private sector needs to be leveraged.

Launch of Atal Innovation Mission ("AIM")

The Government of India has launched Atal Innovation Mission (AIM) with Self-Employment and Talent Utilization (SETU) Programme to serve as a platform for promotion of world-class Innovation Hubs, Grand Challenges, start-ups businesses and other self-employment activities, particularly in technology driven areas. The Atal Innovation Mission (AIM) shall have two core functions:

- Entrepreneurship promotion through Self-Employment and Talent Utilization (SETU), wherein innovators would be supported and mentored to become successful entrepreneurs.
- Innovation promotion to provide a platform where innovative ideas are generated.

Promoting start-ups in the biotechnology sector

The Biotechnology sector in India is on a strong, growth trajectory. Department of Biotechnology endeavours to scale-up the number of start-ups in the sector by nurturing 300–500 new start-ups each year to have around 2,000 start-ups by 2020.

To promote Start-ups in the sector, The Department of Biotechnology shall be implementing the following measures along with its Public Sector Undertaking Biotechnology Research Assistance Council (BIRAC). Bio-incubators, Seed Fund and Equity Funding:

- 5 new Bio-clusters, 50 new Bio-Incubators, 150 technology transfer offices and 20 Bio-Connect offices will be set up in research institutes and universities across India.
- Biotech Equity Fund – BIRAC AcE Fund in partnership with National and Global Equity Funds (Bharat Fund, India Aspiration Fund among others) will provide financial assistance to young Biotech start-ups.

OVERVIEW - STARTUP INDIA

<table>
<tr><td></td><td colspan="2">2015</td><td colspan="2">2025</td></tr>
<tr><td>Total no. of Start (~)</td><td colspan="2">10,000</td><td colspan="2">100,000</td></tr>
<tr><td>Employ-ment generups ation (‘000)</td><td colspan="2">-</td><td colspan="2">3500</td></tr>
<tr><td>Expected contribution (US$ b)</td><td colspan="2">-</td><td colspan="2">500</td></tr>
<tr><td>Global start-up ranking</td><td colspan="2">3rd (Behind the US and the UK)</td><td colspan="2">Aims to be No. 1</td></tr>
<tr><td>Driving factors</td><td>An emerging economy
Young population
Easing FDI norms</td><td>Growing middle class
Rise in discre-tionary spending
Focus on stan-dard of living</td><td colspan="2">Increasing internet users
Urbanization
Increasing domestic consump-tion</td></tr>
<tr><td>Challenges for startups</td><td>Lack of aware-ness
Multiple clear-ance requirement
Multi-tax exis-tence (Octroi, VAT, Excise, ST etc.)</td><td>Lack of aware-ness
Multiple clear-ance requirement
Multi-tax exis-tence</td><td colspan="2">Stringent Exit policies
Ease of doing business
Corruption/red tape
Technological risk</td></tr>
<tr><td>Govern-ment Initia-tives</td><td>Startup Ecosys-tem
Digital India
Online clearance portal</td><td>Tax exemption
MUDRA Bank
India Aspiration Fund</td><td>Easing fund raising
Other funding initiatives
Setting of SETU</td><td>Focused sectors
Awareness initiatives
Setting up incubators</td></tr>
</table>

**Source: Grant Thornton report 2016*

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Analytical Study on Contribution of Private Banks in the Success of Pradhan Mantri Jan Dhan Yojana

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Sheetal Malik**
Abhinav Kataria***

ABSTRACT

With a view to bring about a complete financial inclusion of all the households in the country, on 15 August, 2014 'Pradhan Mantri Jan-Dhan Yojana' was announced by Honorable Prime Minister, 'Mr. Narendra Damodar Modi'. This held to be a very serious National Mission on Financial Inclusion for bringing a paradigm shift to highest level of transparency together with Governance. It was realized that financial inclusion is the essence of sustainable economic growth and development of a country. To strategize this vision it was felt that large sections of the rural population should come within the ambit of banking system. Attempts at every corner were made by the policymakers and financial institutions and no stone was left unturned. Financial Inclusion is an unavoidable factor for the economic development of a country without which the progress shall remain a distant vision. The reason being that a lion's share of total population remains outside the growth process.

One of the peculiar reasons for poverty is high level of absenteeism from banking. No doubt that there are few lakh people who are enjoying all kinds of services from savings to net banking, but still by and large around 40% of people lack access to even basic financial services like savings, credit and insurance facilities even after 69 years of independence. In order to fulfill National Mission of PMJDY or Financial inclusion we cannot neglect the role of private banks in ensuring the access to financial services in an affordable manner. Thus the need arises to analyze their contributions through this paper.

Key Words: Financial, Inclusions, PMJDY, Banking

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INTRODUCTION

It was the need of the hour that every Indian becomes an integral part in the National development of the country. With this vision a mission was set, in the form of **PRADHAN Mantri Jan Dhan Yojana.** With a view to bring about a complete financial inclusion of all the households in the country, on 15 August, 2014 'Pradhan Mantri Jan-Dhan Yojana' was announced by Honorable Prime Minister, 'Mr. Narendra Damodar Modi'.

Pradhan Mantri Jan dhan yojana no doubt was a new concept of financial inclusion but much before that many other concepts had already paved their way into the Indian economy under different government and bureaucrats. Unfortunately over the years they all carried with them their unsuccessful and some untold stories.

Attempts at every corner were made jointly by the policymakers and financial institutions; no stone was left unturned in bringing the large sections of the rural population within the ambit of banking system. It was realized that financial Inclusion was an unavoidable factor for the economic development of a country without which the progress shall remain a distant vision. Private Banks in this context has given their full support in making the PMJDY a success. The present paper is an attempt in bringing the contributions of Private Banks into books.

OBJECTIVES OF THE STUDY

- To know the contribution of Private Banks in PMJDY
- To Rank the different Private Banks on the Parameters of Profitability and Liquidity.
- To Study Inclusive Growth of Account opening rate after the announcement of PMJDY.

LITERATURE REVIEW

Arhate and Jagtap (2014) revealed in their findings on "Financial Inclusion Strategy of PMJDY and Issues related to the success of the scheme" they concluded that every new idea requires determination and attitude towards success path. In order to eradicate the poverty PMJDY is an excellent move to charge the economy to the roads of more and more opportunity.

Paramasivan and Ganesh kumar (2013) has put thrust on a new acumen called Branch Density which has a major impact on Financial inclusion. Investment awareness must go hand in hand with investment opportunities in the absence of which financial inclusion shall remain a distant dream.

Rajanikanta Khuntia (2014) Lion's share of the population which remains outside the ambit of banking needs to be reduced. In order to squeeze the degree of "Financial untouchability" the new government had arrived with a big bang theory popularly known as "Pradhan Mantri Jan Dhan Yojana", with a distant vision of providing not only banking facilities but also provides with an in-built insurance coverage, ensuring that the three pillars Growth, Fight from Poverty and empowering the lower strata of the society be met.

Key Features oF PMJDY Are As Follows:

- Interest on deposit.
- Accidental insurance cover of Rs.1.00 lac
- No minimum balance required.
- Life insurance cover of Rs.30,000/-
- Easy Transfer of money across India
- Beneficiaries of Government Schemes will get Direct Benefit Transfer in these accounts.
- After satisfactory operation of the account for 6 months, an overdraft facility will be permitted
- Access to Pension, insurance products.
- Accidental Insurance Cover, RuPay Debit Card must be used at least once in 45 days.
- Overdraft facility upto Rs.5000/- is available in only one account per household, preferably lady of the household.

DATA

Study was confined to Secondary data available on https://pmjdy.gov.in/trend-zero. The study was undertaken with a view to find out the contributions of Private Bank in PMJDY.

1.	Comparison among private banks in terms of Number of Accounts opened.
2.	Comparison among private banks in terms of Balance.
3.	Comparison among private banks in terms of Minimum Balance.
4.	Comparison in terms of Cash Outflow.
5.	Comparison in terms of Average balance.

ORGANISATION OF DATA

1) Information pertaining to number of accounts opened was taken from https://pmjdy.gov.in/trend-zero. In this area Number of Accounts opened involves both Non Zero balance account and Zero balance account.

2) Balance was converted into absolute figures by multiplying with One lac.

3) Non Zero balance Account was obtained by the following process.

- Subtracting Zero balance account from Total Account opened.

4) Cash Outflow comes into the picture when it was understood that out of 1,00,000 Rs 70,000 shall be borne by bank and rest Rs 30,000 by Insurance Company. Its figure was derived as under:

- Number of Non Zero Account as calculated above.
- Number of Death = Number of Account having minimum balance x 7.48/1000 (Here 7.48 has been taken in accordance with the Current Crude Death Rate)
- Cash Outflow = Number of Death x 70,000

5) Average balance maintained = Balance in Account (lacs)/ Number of Accounts having Minimum balance

FINDINGS

a. In-terms of contribution HDFC was the highest followed by Jammu & Kashmir bank. This was something which reveals that people of Jammu and Kashmir had put their faith on the bank bearing the name of the state. *(Chart- 2)*

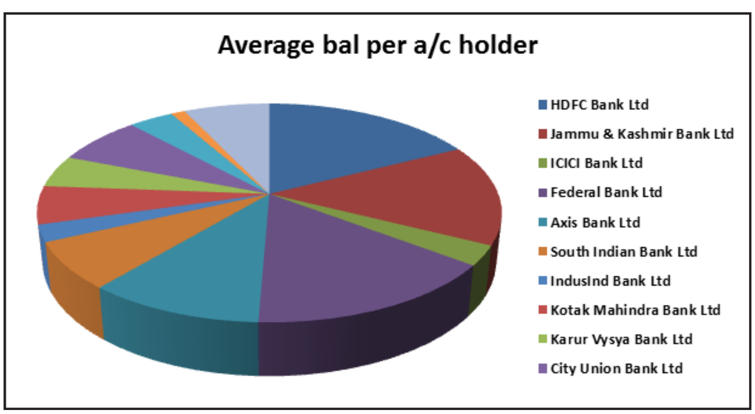
b. Average balance per account holder also remains the same. HDFC being Number 01, followed by Jammu & Kashmir. Yes Bank being the last. *(Chart- 1)*

c. ICICI has the maximum cash outflow it is because of the fact that the number of minimum balance account is the highest but the quantum of balance maintained is less than HDFC and Jammu and Kashmir bank. (*(Chart- 3 & Chart-4)*

d. Federal Bank has come up with second rank in terms of maintaining Average Balance per account holder which has surpassed Jammu & Kashmir and ICICI. (*Chart- 5*)

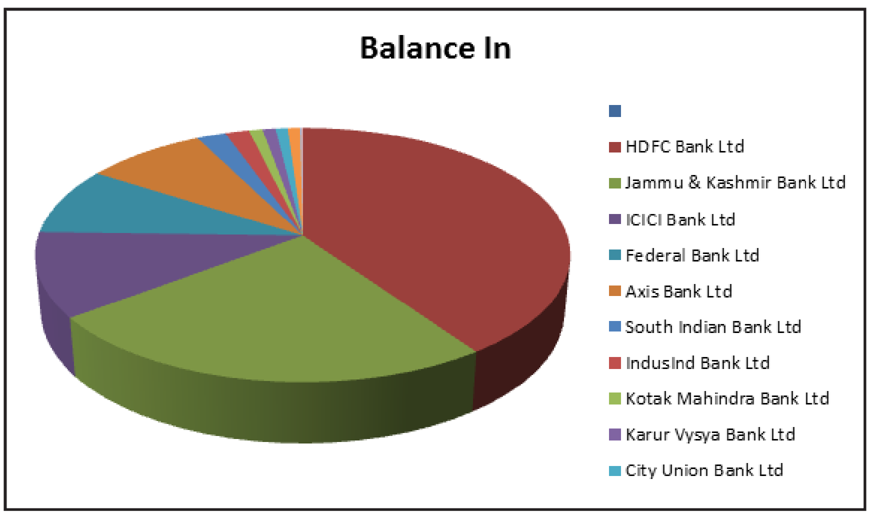
Name of Bank	Average bal per a/c holder
HDFC Bank Ltd	7178.876195
Jammu & Kashmir Bank Ltd	6121.254523
ICICI Bank Ltd	1192.178961
Federal Bank Ltd	6284.786696
Axis Bank Ltd	4302.891839
South Indian Bank Ltd	2847.900565
IndusInd Bank Ltd	1021.016566
Kotak Mahindra Bank Ltd	2314.185624
Karur Vysya Bank Ltd	1947.906612
City Union Bank Ltd	2942.712721
Lakshmi Vilas Bank Ltd	1506.695965
Ratnakar Bank Ltd	475.4114268
Yes Bank Ltd	2899.123381

EXHIBIT : 1



Name of Bank	Balance In Accounts (In lac)
HDFC Bank Ltd	89695.32
Jammu & Kashmir Bank Ltd	54420.34
ICICI Bank Ltd	23921.81
Federal Bank Ltd	19319.56
Axis Bank Ltd	18786.77
South Indian Bank Ltd	4513.78
IndusInd Bank Ltd	3689.28
Kotak Mahindra Bank Ltd	2127.13
Karur Vysya Bank Ltd	2038.27
City Union Bank Ltd	1886.22
Lakshmi Vilas Bank Ltd	1885.63
Ratnakar Bank Ltd	244.97
Yes Bank Ltd	221.58

EXHIBIT : 2



Name of Bank	No: of A/c min bal
HDFC Bank Ltd	1249434
Jammu & Kashmir Bank Ltd	889039
ICICI Bank Ltd	2006562
Federal Bank Ltd	307402
Axis Bank Ltd	436608
South Indian Bank Ltd	158495
IndusInd Bank Ltd	361334
Kotak Mahindra Bank Ltd	91917
Karur Vysya Bank Ltd	104639
City Union Bank Ltd	64098
Lakshmi Vilas Bank Ltd	125150
Ratnakar Bank Ltd	51528
Yes Bank Ltd	7643

EXHIBIT : 3

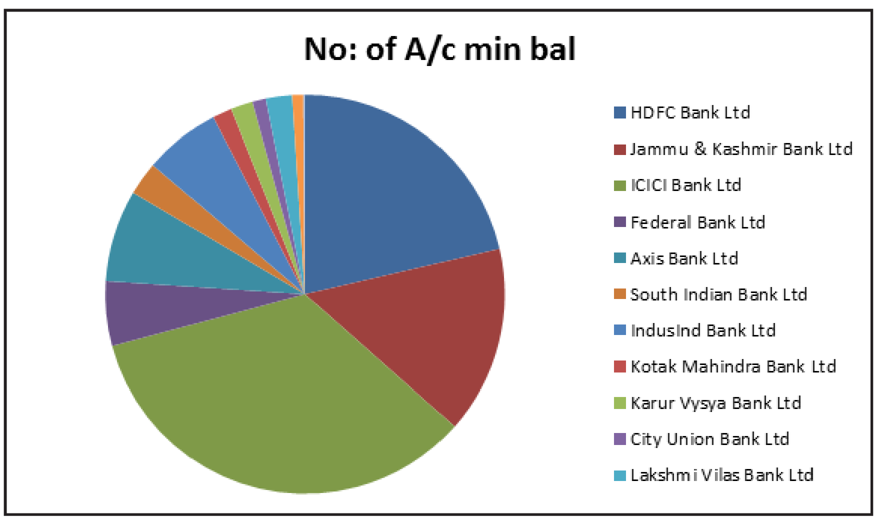


CHART : 3

Name of Bank	Cash outflow (insurance)
HDFC Bank Ltd	654203642.4
Jammu & Kashmir Bank Ltd	465500820.4
ICICI Bank Ltd	1050635863
Federal Bank Ltd	160955687.2
Axis Bank Ltd	228607948.8
South Indian Bank Ltd	82987982
IndusInd Bank Ltd	189194482.4
Kotak Mahindra Bank Ltd	48127741.2
Karur Vysya Bank Ltd	54788980.4
City Union Bank Ltd	33561712.8
Lakshmi Vilas Bank Ltd	65528540
Ratnakar Bank Ltd	26980060.8
Yes Bank Ltd	4001874.8

EXHIBIT : 4

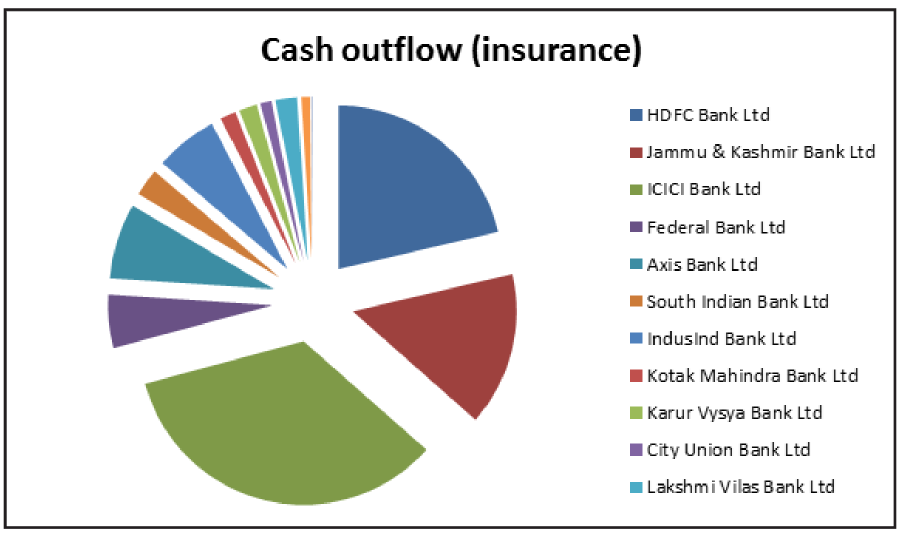


CHART : 4

Name of Bank	Average bal per a/c holder
HDFC Bank Ltd	7178.876195
Jammu & Kashmir Bank Ltd	6121.254523
ICICI Bank Ltd	1192.178961
Federal Bank Ltd	6284.786696
Axis Bank Ltd	4302.891839
South Indian Bank Ltd	2847.900565
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Karur Vysya Bank Ltd	1947.906612
City Union Bank Ltd	2942.712721
Lakshmi Vilas Bank Ltd	1506.695965
Ratnakar Bank Ltd	475.4114268
Yes Bank Ltd	2899.123381

EXHIBIT : 5

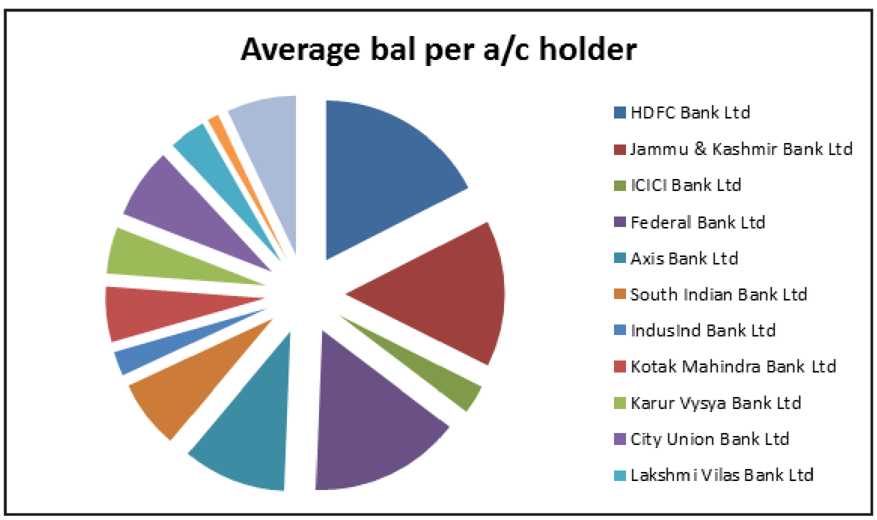

CHART : 5

CONCLUSION

Most of India should get an universal access to banking system with this aim one of the most ambitious project PMJDY has been announced by prime minister, which proved to be the biggest financial inclusion in the history of any economy. The success of PMJDY can be revealed from the fact that it has already registered itself in **GUINESS BOOKS OF WORLD RECORD**. But it is quite early to declare the success of the program with the passage of time it has been observed that 31,46,668 accounts in total have no balance at all out of a total account of 90,00,517. Hence in private bank 34.9% of the account holders still maintain zero balance. The study showcase that HDFC has not only been able to open maximum number of accounts but has also ensured that minimum balance should be maintained to the largest extent. Although the study has not thrown light on the aspects of rural and urban scenario. That study has kept open for future studies.

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Cashless India – Transformation of Transaction System

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ABSTRACT

The wind of change in payment system in India is gaining strength by government accelerating financial inclusion, opening new business models and providing impetus to digital payments system. The system offers an unprecedented opportunity to people, most of whom lives in rural India or are migrants in big cities. Traditionally, the field of payments has been bank driven but with the continuous innovation in the technology, payment system is emerging as a distinct industry. Following the demonetization of high denomination paper currency notes, the Government urged small traders to embrace technology by using digital payment systems. It is expected that by embracing technology, we can bring about a big transformation in the form of a cashless society. However, this transformational phase is accompanied by heightened concerns around cyber crime, consumer protection, competition, safety and convenience. The anonymity of cash transaction is a non-trivial barrier to digital payments and is a constant battle between Government and those who evade taxes.

Keywords: Cashless, Digitalization, Electronic payment

INTRODUCTION

The payment landscape in India has witnessed some structural dramatic changes during the last couple of years which is considered a watershed period in the payment industry. In the early 1990s, the Reserve Bank of India spearheaded the development of technological infrastructure that facilitated the creation of a Department of Payment and Settlement System (DPSS). In 2007, the Indian Parliament passed the Payment and Settlement Systems Act. Since the inception, the department continued its focus on migrating to a cashless economy through a process of stakeholder consultation for developing a regulatory framework that

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is responsive to emerging developments and innovations. Digital payments can enable greater economic growth, growth in international e-commerce, and aid in social and financial inclusion. Presently, India represents one of the largest market opportunities for payments. The population is eager to participate in the rapid evolving advancement in technology. The growth of the India cashless payment space is expected to be driven by four trends:

- **Cash being expensive**: Though there are several perceived benefits of transacting in cash (such as instantaneous settlement, relative anonymity, and the notion of security associated with holding physical value), there are several latent and implicit costs associated with cash.
- **Advancement in technology:** Technology has been advancing at a rapid pace to deliver robust, secure and convenient payments solutions. This enables rapid delivery of payment services to large sections of the population.
- **Economical:** Digital payments allow for services to be delivered at lower costs, afford greater scalability and greater ease of access. This in turn, helps in fostering economic growth and financial inclusion.
- **Government initiatives**: Initiatives taken by the government have created a catalytic environment for the greater proliferation and growth of digital payments.

As and when we transition from nascent cashless economy to a mature one, we would witness a significant drop in cash/paperless based transactions. While the transition in its course would have it own share of pains for different stakeholders owing to overall structural changes that the system would encounter.

OBJECTIVE OF THE STUDY

The overall objective of the study is to examine the role of digitization in transforming India into a cashless economy. Following are the objectives of the paper;

1. To assess the financial infrastructure available in India to support the digitalization
2. To analyze the different digital modes of payment system available in India
3. To investigate problems and prospects of cashless economy and the challenges in making India a cashless Economy

RESEARCH METHODOLOGY

In pursuance of above objectives the following research methodology was used for this study. The objectives of the study were achieved through collection and analysis of secondary Data. The secondary data has been mainly drawn from various records and publications of Reserve Bank of India (RBI), Digital India, National Payments Corporation of India (NCPI), Journals and websites of government and non government organization.

REVIEW OF LITERATURE

Indian payments industry is undergoing an ecosystem expansion and transformation and at the same time entry of new banks, acquiring and processing companies, is likely to bring unique business model nuance to the fore. With a large number of organizations conducting business this way, it has become evident that the field of e-commerce has a promising future ahead and businesses are going to obtain maximum benefit from it (Abrazhevich, 2004, p.1). Electronic Payments provides greater freedom to individuals in paying their taxes, licenses, fees, fines and purchases at unconventional locations and at whichever time of the day, 365 days of the year [Kaur.k & Dr. Pathak. A, 2015]. However, there are several barriers identified to the adoption of this payment method [Bezhovski. Z]; such as digital literacy, digital usage, fraud, consumers' privacy, application technology, and computer security. So certain measures should be taken to grant this industry a promising future ahead.

FINANCIAL INFRASTRUCTURE IN INDIA

For three decades financial inclusion and financial literacy have been important policy goals on the government's and RBI's agenda. Numerous steps have been taken by the government, RBI along with National Payments Corporation of India (NPCI) such as opening of no frills accounts, relaxation of KYC norms, Pradhan Mantri Jan Dhan Yojna, Aadhaar-enabled payment system, e-wallets and National Financial Switch (NFS) and now, payments banks to leverage technology and introduced newer avenues for banking with the overall objective of improving customer experience, security and ease of transactions.

The evolution of India's financial infrastructure can be divided into three phases:

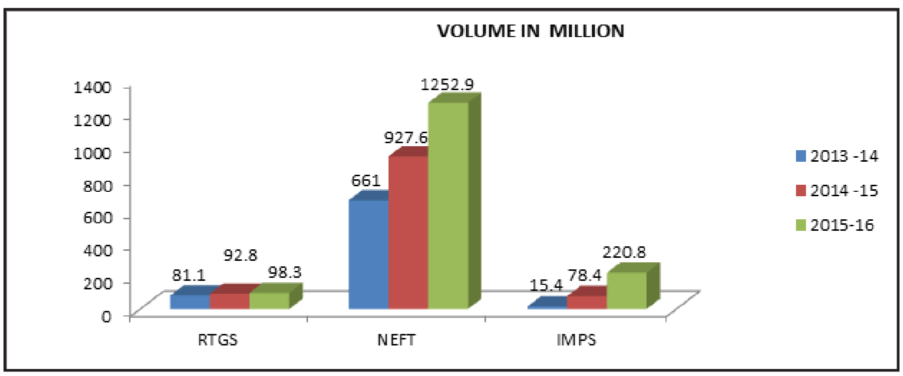
FIRST PHASE	SECOND PHASE	THIRD PHASE
1984: Introduction of Magnetic Ink Character Recognition (MICR) technology	2001: Internet banking	2010: Immediate Payment Service (IMPS)
1987: First ATM installed in Kolkata	2004: National Financial Switch (NFS)	2012: Adoption of ISO 20022 messaging standard in the Next Generation RTGS (NG-RTGS) system
1988: Computerized settlement operations at clearing houses of RBI	2004–2005: Real Time Gross Settlement (RTGS), National Electronic Funds Transfer (NEFT)	2014: Jan Dhan Yojana, National Unified USSD Platform, RuPay Card, Bharat Bill Payment System (BBPS)
1998–2000: Core banking software	2007 : Mobile banking	2016: Unified Payment Interface (UPI), payment banks, mobile wallets,
	2008: Cheque truncation systems	2017: Bharat Interface for Money (BHIM) app

**Source*: ASSOCHAM report 2017

Thus, the journey to create a cashless economy remains an ongoing one; there have been several milestones along the way which is to be achieved by Government, RBI, Banks and the other players in the financial infrastructure system to achieve the goal of cashless economy.

INDIAN TRANSACTION SYSTEM

With The Evolution Of The Financial Infrastructure Ecosystem, The Digital Platforms Available For Payments Have Transformed. Financial Inclusion Has Gained Prominence As The Banking System Flourished And Various Platforms Were Adopted In India. The Combination Of Regulatory Innovation In The Form Of Payments Bank, Institutional Innovation In The Form Of National Payments Corporation Of India (NPCI) And Establishment Of Aadhaar As A Digital Identity Platform, Along With The Rapid Adoption Of Mobile Phones, Have Laid The Foundation For Rapid Growth In Digital Payments In India. From The Below Mentioned Graph It Is Evident That For The Period 2014- 2016, There Has Been A Significant Shift In The Volume In The Electronic Transfer With IMPS Mode Showing The Steepest CAGR Of Around 279%, Followed By NEFT And RTGS Showing A Healthy Double Digit Growth Of 38% And 10%, Respectively.



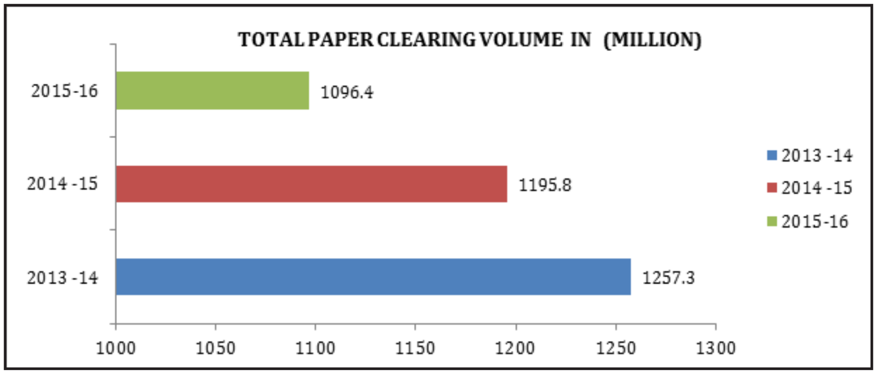
**Source:* RBI annual report 2016

The Reserve Bank continued its efforts towards building robust and secure payment and settlement systems for achieving a cashless society. It aims to facilitate provision of a payment system for the future that combines the much-valued attributes of safety, security and universal reach with technological solutions which enable faster processing, enhanced convenience, and the extraction and use of valuable information that accompanies payments. The vision document 2018 of RBI aims at building premier payment and settlement systems for a cashless India which will revolve around central theme of 5C's - coverage, convenience, confidence, convergence and cost, which in turn expected to result in-

- Reduction in the share of paper-based clearing instruments,
- Consistent growth in individual segments of retail electronic payment systems viz., NEFT, IMPS, card transactions and mobile banking,
- Increase in the registered customer base for mobile banking,

- Significant growth in acceptance infrastructure and
- Accelerated use of Aadhaar in payment systems.

The payment system initiatives undertaken by the RBI have resulted in deeper acceptance and penetration of modern electronic payment systems in the country. The shares of electronic payments in non-cash payments have shown an upward trend. The main focus is to provide a thrust to modern electronic payments that are safe, simple and low cost for use by all. From the graph below it is evident that there is a gradual decrease in the volume of total paper clearing during the period of 2014 – 2016, a CAGR of 6.62%.



**Source:* RBI annual report 2016

Thus, transitioning to digital payments is estimated to bring about a significant reduction in costs incurred on account of inefficiencies associated with cash and other paper based payments. The central government has taken numerous measures to provide incentives to boost digital payment systems across the nation. The incentives can be summed up as follows:

- Digitalization of India
- Conducive Regulatory Environment
- Emergence of Service Provider
- Incentivize Consumers

DIGITALIZATION OF INDIA

The Government aims to transform India into a digitally empowered society and knowledge economy. Digitalization will play a catalyst role in transformation of Indian economy into less cash economy. It will bridge the stark differences between digital "haves" and digital "have-nots" to ensure that government services reach every household in order to create a long-lasting developmental impact. (DeitY, 2015).

- **Smartphone User**: With a mobile subscriber base of nearly 1 billion, India accounted for the second-largest telecom network in the world. Of this, approximately 240 million consumer uses smartphone and this base is projected to increase to over 520 million by 2020. Hence, it will provide huge opportunity to the technology providers and app developers.
- **Internet Network:** A substantial increase in 3G and 4G connection both in rural and urban areas led to rapid expand of internet connectivity. The

National Optical Fiber Network (NOFN) initiated by Digital India is set to provide broadband connectivity to cover 250,000 gram panchayats across rural India. Thus, the growth prospects of the m-commerce industry looks promising considering robust growth in infrastructural touch points such as smartphones and internet penetration.

- **Increase in digital transaction:** Over the years, digital transaction has shown a steady growth which has resulted in decrease in the paper based transaction and will facilitate in transforming the conventional methods of doing trade, business or commerce for goods and services.

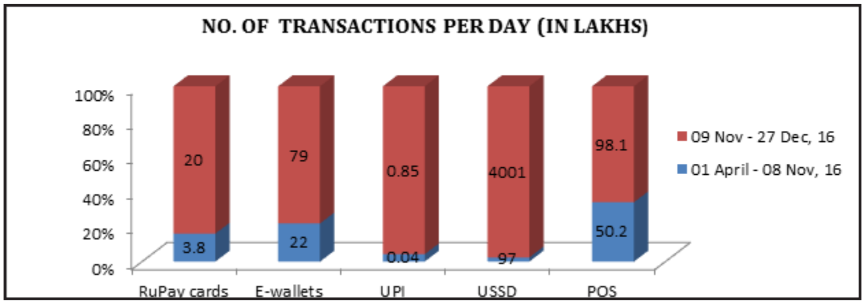
CONDUCIVE REGULATORY ENVIRONMENT

RBI along with government and various agencies works to create and sustain an environment conducive for the development of digital payment systems across the nation which includes accessibility 24 x 7, Large geographical reach, Indirect customer interaction. The key regulatory steps that are currently enabling digital payment in India are as follows:

- **Relaxation of KYC**: As per RBI guidelines, customers are not required to undergo KYC process for transaction of small value i.e Rs 10,000 on prepaid instruments. This guideline will enable the customer to download the wallet of choice and use the same for transaction as against the traditional bank.
- **Exemption from 2FAuthentication**: Transaction made using debit card/ credit card requires two factor authentication, irrespective of transaction value. Though authentication is necessary for consumer security, it results in transactional drop-offs. Thus, RBI provide exemption to the mobile wallet of two factor authentication when they make transaction, authentication is required only at the time of loading funds from other banks.
- **Unified Payment Interface (UPI)**: The Unified Payments Interface (UPI) launched by National Payments Corporation of India (NPCI) which offers architecture and a set of standard Application Programming Interface (API) specifications to facilitate online payments. It aims to simplify and provide a single interface across all NPCI systems besides creating interoperability and superior customer experience. Like IMPS, UPI will facilitate round-the-clock funds transfer service.
- **Bharat Bill Payment System (BBPS)**: Bill payment is a major component of the retail payment transactions in India where billers provides a variety of payment options to their customers. The Bharat Bill Payment System (BBPS) offers interoperable and accessible bill payment services to customers through a network of agents, allows multiple payment modes and provides instant confirmation of payments.

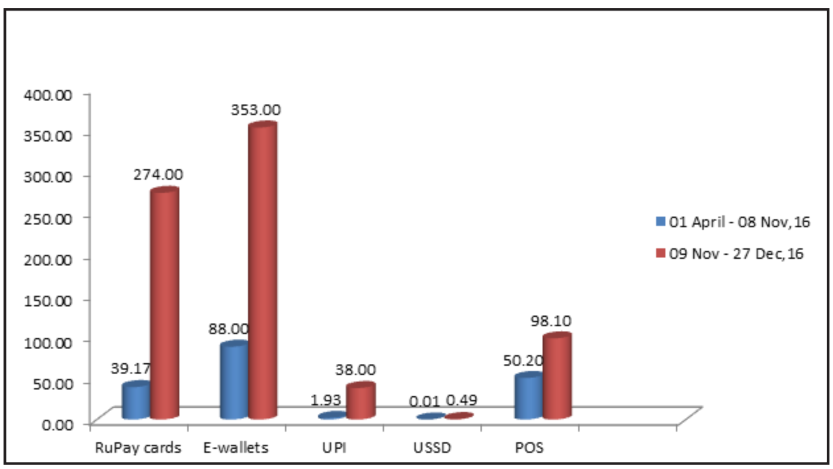
The demonetization move has had a huge impact on various sectors of the Indian economy and has significantly impacted the way people transact in daily life. Replacing a large amount of cash over a 50-day period had put humongous pressure on the banking system. This led to the adoption of alternative technology platforms. As a result, both the number and value of transactions through these platforms saw a huge surge.

ANALYSIS OF DIGITAL PAYMENTS DURING THE DEMONETIZATION PHASE



***Source:** Ministry of Electronics and Information Technology & ASSOCHAM Report 2016*
**Note: Data pertaining to USSD is in hundred and thousand*

The number of transactions through RuPay witnessed 425%.2 growths during the period from 8 November to 27 December 2016. The number of transactions through e-wallets saw a massive 301% increase during the same period. Further, the number of transactions through POS shot up by 95%. Similarly, RuPay , E-wallet, UPI, USSD and POS saw a huge surge in value of transaction per day.



***Source:** Ministry of Electronics and Information Technology & ASSOCHAM Report 2016*

However, during the 50-days period to boost digital transaction the government announced that no service tax will be charged on digital transactions up to 2,000 INR. Digital payments made for buying petrol and diesel was given a discount of 0.75%. The suburban railway network also announced a discount of up to 0.5% to customers for monthly or seasonal tickets booked through digital transactions. In addition, life and general insurance policies and renewal premiums on public sector undertaking (PSU) insurers' websites provided an 8% and 10% discount, respectively. For payments at toll plazas on national highways using RFID card/Fast Tags, a discount of 10% was made available to users in the year 2016-17.

EMERGENCE OF SERVICE PROVIDER

The payments landscape in India is at a point of inflexion. With intense competition and strategic collaboration among market participants, banks are lowering the costs of banking and underserved and unbanked consumers beginning to find utility in formal financial services, the opportunity will be immense.

- **Banks Wallet**: Banks have now started offering their own mobile wallets in addition to the mobile banking apps which have been proved to seamless and quick, leading to customer preferring wallets for mobile recharge and bill payment. Few includes Payzapp by HDFC Bank, SBI Buddy by SBI, pockets by ICICI, Lime by Axis, Ziggit by IDFC Bank.
- **Payment Solution by Telco:** To facilitate non-digital savvy customer's in conducting a variety of financial transaction conveniently large companies like Airtel, Vodafone, Idea cellular has launched payment solution like Airtel Money by Airtel, Vodafone M-pesa by Vodafone, Idea money by Idea Cellular, mRUPEE by TATA, Jio Money by Reliance. The primary uses of these solutions were largely mobile recharge and remittance.
- **Prepaid Payment Instrument:** Prepaid Payment Instruments (PPIs) has emerged as a convenient replacement/substitution mode of cash transaction (Muraleedharan. D 2014). PPI issuer do not require 2F Authentication which resulted in emergence of mobile wallet like Paytm, MobiKwik, Freecharge and citrus pay which are for digital savvy customers & prepaid cards like Oxigen, Itz Cash, Suvidhaa and GI Tech which are for non-digital savvy customers. Tech firms acquire the services of some of these PPI's to offer in house in-house wallet solutions.
- **In Principal Approval to Payment Banks:** With the objective of driving financial inclusion, reducing dependence on paper based transaction and increasing digital payment, RBI has given in principal approval to 11 applicants for setting up payment banks in 2015. It aims at providing small savings accounts and payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganized sector/entities and other users.

INCENTIVIZE CONSUMERS

To incentivize consumers and merchants to go for digital payments, the government has launched two schemes that would give cash prizes to consumers and merchants who use digital modes of payments.

The two scheme, Lucky Grahak Yojana and the Digi-Dhan Vyapari Yojana which will be run by the National Payment Corporation of India for 100 days. Under the lucky grahak yojana scheme, 15000 winners will be awarded daily for 100 days, starting from 25 December, 2016 with Rs 1000 each and a weekly cash prize of worth Rs. 50,000, Rs 5,000 and Rs. 2,500 to the merchant's who uses digital mode of payments under Digi-Dhan Vyapari Yojana.

CHALLENGES IN DIGITAL ADOPTION

The banking industry is going through exciting times and technology, digitisation, social media and mobility are changing rapidly altering the way in which we live, work and interact with each other. As the government presses ahead with cash to less cash to cashless economy, the success of the transition will depend on various factors such as:

- **Slow Internet speeds**: India is plagued with very low internet speeds, which continue to inch up but are lower than global benchmarks. As per the Akamai reports Q4 2016 the average internet speed in India is 5.6mbps which is still behind when compared to other countries in Asia Pacific region. India's global rank is 97, a little behind China and Indonesia out of 149 qualifying countries.
- **Risk of Piracy:** The digital media industry has not been able to fully monetize the content due to rampant piracy in India. Weak IP regulations and ineffective enforcement has discouraged players to produce original content and IP.
- **Online Payments:** One of the primary forces impeding the growth of subscription and pay-per-view revenue models are the hassles that the consumer faces while making payments on digital platforms, even when they are willing to pay. This is on account of low credit card penetration, fear of using net banking and credit cards online due to security threats and the lack of experience of transacting online.
- **Risk of Cyber Fraud:** As the digital channel in financial services continues to evolve, cyber security has become a business risk, rather than simply a technical risk. Security breaches can damage reputations and destroy trust, thereby jeopardizing the investments made in digital solutions. A single hack can ensure millions of accounts being compromised, as it happened in October when 3.2 million card details were stolen in a malware related security breach. These cards from customers of State Bank of India, HDFC Bank, ICICI Bank, Axis Bank and others, were used at ATMs. The stolen debit cards were used in China. The heist is still under investigation, but is almost forgotten in the scramble for a digital payments future.

CONCLUSION

India is at the cusp of transformation as we embark upon the new phase of banking and financial inclusion. New technology in particular has both enabled and in turn been fuelled by a huge influx of new providers and products, all vying to enter the payments space. However, government impetus to digital transaction by demonetization of high value currency notes and providing various initiatives, still majority of transactions are cash based and cash is still king for Indian consumers, hence achieving a 100% cashless society will not be possible in near future, but one can always start from a less cash society and then move towards becoming mostly cashless. Thus, cash continue to play an important role for discrete transactions, especially in the most remote areas and informal sector.

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Corporate Social Responsibility: Opportunity Galore for Start-Up India

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Vivek**

ABSTRACT

Start-up means start with new ideas that work and push the country forward at an incredible pace. Start-up ideas are needed to succeed in the market capitalization of the money. A start-up is a company that is in the nascent stage of its operations. During this stage of the company, the idea should be to solve the ills afflicting the country. Corporate Social Responsibility (CSR) is a welcome idea because it offers many business benefits beyond positive social impact such as cost reduction, identification of new market opportunities and increase in employee engagement. The European Commission regards CSR as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. It means corporate social responsibility programme is good for every business, every organization and it should be applicable in all industries, in all countries and at all levels of business. In an ever changing business environment and with the advent of globalization, many companies embrace corporate social responsibility not only because it is the right thing to do, but also because it strengthens their brand image. This is the reason why start-up companies have to fulfil their responsibilities to the society in order to survive long in the market successfully.Against such a backdrop, this paper aims to explore the issue of implementing CSR at the start-up level with the aim of increasing the firm's ability to identify new opportunities, to identify the steps through which the start-up companies can implement CSR strategy successfully, to analyze the effect of CSR activities on the start-up company's brand image in the market and also to find out the ways and means which will help the start-ups in launching a cost-effective CSR strategy.

Keywords: CSR, Start-up Companies, Opportunity Identification, Corporate Houses.

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INTRODUCTION

Businesses are no longer viewed as only the economic interest but are perceived to be an inseparable part of the society. Corporate social responsibility is basically a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment. It is the continuing commitment by the business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and the society at large not just philanthropy. The emphasis is being laid on how enterprises are doing their daily work: how they treat their, how they produce goods, how they market them, and so on.

The start-up companies must include social issues in their objectives. The fact that CSR is the integration of social and environmental concerns within business operations means that CSR is corporate social responsibility is not charity. It is more about how organizations actually do their business with social responsibility. Start-up companies can use CSR to shape their environment in positive ways. Avoiding risk and creating opportunities- in this way, CSR becomes a part of business strategy and a strong added value for trade and industry when competing in international markets. Thus, we can say that CSR works as an opportunity creator for start-up companies, besides plays a vital role in the start-up India.

CORPORATE SOCIAL RESPONSIBILITY

"Corporate Social responsibility is the responsibility of an organisation for the impacts of its decisions and activities on society and the environment through transparent and ethical behaviour that is consistent with sustainable development and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and integrated with the organisation." We can also define CSR as a Strategic Business Management Concept, charity, sponsorships or philanthropy. To achieve CSR, Company requires integration of social, environmental, ethical concerns into their business operations and interactions with their stakeholders. CSR in India has traditionally been seen as a philanthropic activity. Philanthropic activities are only a part of CSR. Of late, the concept of CSR has undergone change; it has moved from philanthropy to strategic business activity.

START-UPS AND START-UP INDIA

Start-ups

A Start-up is a company that is in the first stage of its operations. These companies are often initially bankrolled by their entrepreneurial founders as they attempt to capitalize on developing a product or service for which they believe there is a demand. Due to limited revenue or high costs, most of these small-scale operations are not sustainable in the long term without additional funding from venture capitalists. In the late 1990s, the most common type of

Start-up Company was a dotcom. Venture capital was extremely easy to obtain during that time due to frenzy among investors to speculate on the emergence of these new types of businesses. Unfortunately, most of these internet Start-ups eventually faded out due to major oversights in their underlying business plans, such as a lack of sustainable revenue. However, there were a handful of internet Start-ups that did survive when the dotcom bubble burst. Internet bookseller Amazon.com and internet auction portal eBay are examples of such companies.

Start-up India

Start-up India is based on an action plan aimed at promoting bank financing for start-up ventures to boost entrepreneurship and encourage start-ups with job creation. Start-up India**-** a plan which directly benefits millions of people will start with new ideas that work and push the country too quickly over the past decade.On April 17, 2015, the Ministry of Commerce and Industry released a notification to define 'Start-ups'. According to the government notification, an entity will be identified as a Start-up.

1. If it is operational at least for five years from the date of incorporation.

2. If its turnover does not exceed 25 crore rupees in the last five financial years.

3. If it is working towards innovation, development, deployment, and commercialization of new products, processes, or services driven by technology or intellectual property.

CORPORATE SOCIAL RESPONSIBILITY MAKES PERFECT SENSE FOR START-UPS

Start-ups have started to wake up recently to the concept of corporate social responsibility and the marketing potential it brings. The question arises: why corporate social responsibility for start-ups? First, because it makes sense to introduce social responsibility standards right at the beginning of business activities, because it is difficult to integrate social responsibility strategies in already grown and established structures. Second, Start-ups can avoid risks already from the beginning on and the high attention on sustainability provides an opportunity to the demands of the market.By taking social responsibility seriously, a start-up can send out a valuable trust signal to its actual and potential customers. Moreover, CSR may be a big concept,yet it is scalable. Followingare some of the practices a start-up can adopt as part of their strategy for social responsibility**:**

1. Reducing Waste

Keeping overheads to a minimum should be a priority for all businesses. For this, the start-up company must carry out a waste audit, looking at areas such as implementing a paperless office strategy (including paperless contact with customers), recycling and encouraging employees to power down work equipment when not in use: these are all common-sense matters that can form the bedrock of a start-up environmental policy.

2. Innovative Employment Practices

Building links with public sector bodies can be a useful way of sourcing talent as well as demonstrating commitment to the wider community. It could mean, for instance, liaising with local colleges, universities and Jobcentres. This approach can be used both for general recruitment and for offering work placements.

3. Involvement with Charity

Six-figure endowments are obviously not an option for most start-ups. There are, however, lots of ways start-up can get involved with not-for-profit organizations and this can be a valuable way of defining and strengthening a new brand image. Give careful thought to your choice of charity and in particular whether the aims of that charity are in line with what your customers care about. Also, look carefully at the charity's reputation and its commitment to good governance (e.g. transparency, charity, insurance and the fundraising methods, it uses).

4. Choice of Third-Party Providers

Think about the third party services you rely on (everything from shipping and professional services through to housekeeping). Consider if these providers operate according to socially responsible principles? Consider making this a key consideration when you choose partners to work with.Increasingly, customers care about your attitude to the big picture. Taking corporate social responsibility seriously cannot be ignored – especially by small businesses looking to position themselves in a crowded market.With the Companies Act, 2013 clearly stating that companies should have a more long-term plan in place for CSR, Companies are realising that such small initiatives are not enough. The Companies Act, 2013 states that:

CORPORATE SOCIAL RESPONSIBILITY (SECTION 135)

1. Every company having net worth of rupees 500 crore or more, or turnover of rupees 1000 crore or more or a net profit of rupees 5 crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors out of which at least one director shall be an independent director.

2. The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.

3. The Corporate Social Responsibility Committee shall,

a. Formulate and recommend to the Board, a Corporate Social Responsibility which shall indicate the activities to be undertaken by the company as specified in Schedule VII;

b. Recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and

c. Monitor the Corporate Social Responsibility Policy of the company from time to time.

4. The Board of every company referred to in sub-section (1) shall:

a. After taking into account the recommendations made by the Corporate Social Responsibility committee, approve the Corporate Social Responsibility policy for the company and disclose contents of such policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and

b. Ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.

5. The Board of every company referred to in sub-section (1), shall ensure that the company spends in every financial year at least two percent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.

Provided that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibilities activities:

Provided further that if the company fails to spend such amount;

The Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount.

Explanation-For the purpose of this section "average net profit" shall be calculated in accordance with the provision of section 198.

SCHEDULE VII

Companies Act,2013

Activities which may be included by companies in their Corporate Social Responsibility Policies relating to:-

(i) Promotion of education;

(ii) Social business projects;

(iii) Ensuring environmental sustainability;

(iv) Eradicating extreme hunger and poverty;

(v) Employment enhancing vocational skills;

(vi) Promoting gender equality and empowering women;

(vii) Reducing child mortality and improving maternal health;

(viii) Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;

(ix) Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; and

(x) Such other matters as may be prescribed.

Following the directives, there is an emergence of varied CSR outfits looking to partner with corporate India to help them achieve this. Thus, the law is also now nudging companies to have a more sustainable and long term approach with respect to CSR.

REVIEW OF LITERATURE

Kevin Jones and Jennifer L Bartlett (2009) in their study addressed strategic value of CSR to the organisation. This article places corporate social responsibility in the context of the resource-based view of the firm, and then uses relationship management to explain the growing involvement of businesses in corporate social responsibility activities. The company has a competitive advantage when it is in possession of a value-creation strategy that cannot be implemented by its competitors. The strategic CSR practices that were focused on relationships the organisation put in place specifically through the foundation created a valuable resource for the firm. This is the reason why corporate houses have to fulfil their responsibilities to the society in order to survive long in the market.**Jenkins (2010)** investigated that grounding CSR in the strategy of enterprises at the start-up level is increasingly examined as an effective management tool with multiple benefits for the opportunity identification processes within small and medium enterprises. In small businesses and start-up companies, CSR principles and practices may help entrepreneurs to add value to the company and differentiate it from other competitors. CSR may be promoted as a means of nurturing creativity and innovation at the start-up level.**Anupama Sharma and RaviKiran (2013)** in their study pointed out thatCSR is not only drawing the corporate magnates into its circumference, but is also luring educationists, social activists, reformists from all over the world to delve deeper into it. Changing market scenario, globalization, ethical consumerism all are adding heat to the CSR concept. More and more organisations are showing their commitments towards CSR either for enhancing their corporate image or to be in competition. Emergence of different marketing innovations demands direct linkage of corporate social responsibility practices with the business corporate strategies. Therefore, companies suggest examining the effects of educational, environmental and health responsibility on its social responsibility practices, budget and their social image. **Constantin Wollenhaupt (2014)** concludedthat building a successful business and focusing on monetarization is not enough for these days. A start-up company must implement CSR strategy at the start-up level as it will help the start-up company in creating a positive image in this world by emphasizing on the social affects it is able to generate.Corporate social responsibility is a very wide ranging concept. Environmental, social and economic questions should stay on the first level of every project, every concept and every business-plan. CSR should be transparent and clearly reported.**Dinushi Dias (2016)** revealed that start-ups can't ignore corporate social responsibility. Start-ups need to embrace corporate social responsibility to capitalise on a growing trend among consumers and make the world a better place. Start-ups and social responsibility go hand in hand.You can't be a successful start-up if the economy is in crisis.You can't grow your customers if they're so sidelined by social issues that they can't even think about your innovative product. Beyond working for the greater good, corporate social responsibility (CSR) is an increasing demand of modern world consumers.

OBJECTIVES OF THE STUDY

The objectives of the study are:

1. To examine the role of CSR in creating opportunities for Start-ups at the start-up level.

2. To analyze the effect of CSR activities on the start-up company's brand image in the market.

3. To identify the steps through which the start-up companies can implement CSR strategy successfully.

4. To study the ways which help the start-ups in launching a cost-effective CSR strategy.

ROLE OF CSR IN CREATING OPPORTUNITIES FOR START-UP COMPANIES

In today's globalised environment, CSR strategy is being adopted by many start-up companies at their start-up level. The question arises here, while implementing a strategy of successful start-up a start-up company has two options; first, it may overlook social issues involved in strategy. However, this is likely to be counter-productive in the long-run. Second, it may incorporate social responsibility programme while implementing its strategy. This latter option is more desirable. Once the start-up company accepts that it has social responsibility to discharge, the issues come: what social activities the organization should undertake, how much to do, and how to inject social view into decision making process. It means CSR better understands the wider impact of your business and it can identify opportunities to develop new products and services for start-up companies in India. CSR also can make the start-up companies more competitive and reduces the risk of sudden damage to reputation (and sales).Opportunities may be identified prior to the launching of a new business but may also occur throughout the life of the enterprise. Start-ups need to invest time and money into research. This market research will help the start-up companies in determining the demand of a product or service. A start-up requires a comprehensive business plan outlining mission statement, future visions and goals as well as management and marketing strategies. In such a situation, start-up companies are smelling opportunities and are extending their services to include corporate social responsibility because CSR offers a number of direct business benefits i.e. responsible business reputation, reducing costs, strengthening brand image, positive press coverage, compliance with legal requirements etc.Even consumers increasingly do not accept unethical business practices or organisations which act irresponsibly. Advances in social media (giving everyone a voice) mean that negative or destructive practices quickly fuel conversations online. Organisations are accountable for their actions like never before. It means every start-up company must be kept in mind that the CSR strategy is the vital component for its success and also for long term survival in the market. It revealed that CSR plays the vital role in creating opportunities for Start-ups.

FIVE STEPS TO IMPLEMENT CSR IN START-UP COMPANIES AT THE START-UP LEVEL

If a start-up company has a great idea for one, then it should want to implement social responsibility strategy from the onset. However, addressing social responsibility strategy right from the start will keep it on focus and, on track as the start-up company grows. Depending on the nature of business of Start-up Company and what the start-up company wants from its business, its social responsibility strategy will differ. There are five simple steps that will help implement social responsibility strategy into business effectively, whether one already has or is thinking of starting one.

1.Define a Mission, a Vision and Values

It is a difficult exercise and a start-up company will need time to figure out all the three steps: mission, vision and value.

Mission will let the world know what a start-up company intendsto doand how it can do it. It has to be kept simple, as no company needs to have a long mission statement that no one will be able to understand. The most effective mission statements are direct, easy in language which people can relate and remember. It should not be so general that it is applicable to many businesses; it should focus on company's business only.

Vision will state where a start-up company is heading, what it wants to be and what its purpose is. Be optimistic, highlight the possibilities that are on the wings waiting, and show that you are the leader and an important change agent.

Values will form the personality of a start-up company business; they will guide its employees, its actions and strategies and define the type of relationship that a start-up company cherishes with its stakeholders.

2. Identify main Stakeholders

When trying to implement social responsibility strategy in start-ups, it is very important to identify the main stakeholders of your company .Some of the stakeholders may be identified asclients, suppliers, government, and community leaders. This exercise is relatively simple for start-ups and complicates as your business gets bigger and touches more people. Right from the start it is important to know who are your stakeholders and their needs and expectations from you. This research and interaction with them will enable the company to identify risks and opportunities. All stakeholders are important, choose the best way you will interact with them and take due care in selecting and working with them.

3. Create a Company Strategy

While creating the strategy of the company, it needs to take into consideration where the company is and where it wants to be. Define objectives of the company and talk it through with its employees and with its suppliers. Their feedback is important to keep objectives achievable. Be optimistic but keep it real, it is better to improve slowly than fail to achieve over-optimistic objectives. Focus on the resources needed and the targets to be achieved. Bear in mind that by incorporating social responsibility the start-up company is aiming to address social, economic and environmental issues. Think about the direct impacts and opportunities the company will have in all the three areas.

4. Focus on Excellent Communication and Transparency

Well informed employees and partners will help us perform better. Open up communication channels and make an effort to establish a good communicative environment. Transparency is crucial for employees to see what the situation is and what their contribution is impacting on. All departments in a business should be interlinked and have a well-established communication channel which is essential for its well- being and productivity. Hold meetings from time to time where everybody shares results and achievements, focus on continuous improvement and learn from mistakes. Share difficulties encountered and follow-up on the solutions identified. Invest in your people, make them feel part of a team and keep them motivated.

5. Keep it up when growing

Once the company has set the basic, don't ignore it as the company grows. This exercise should be redone when the company grows and develops. When conditions and characteristics of the company change, all of these steps should be reviewed to keep it updated with the present situation.

SIX WAYS START-UPS CAN DO CORPORATE SOCIAL RESPONSIBILITY

Traditionally, corporate social responsibility (CSR) has been considered as an obligation for large corporations. But as consumers become far savvier about the brands they are buying into, it is becoming more important for small businesses to think about their corporate image. But how can start-ups launch a viable cost-effective CSR strategy?

1. Get everyone involved

Consider introducing a company-wide pitching process where staff members can propose a charity and the rest of the organisation has to vote for the one to proceed with. Involving staff in the decision making process and achieving a consensus for the charity to support will increase their propensity to get involved with fundraising activities.

2. Don't bite off more than you can chew

Though business may have the best intentions for supporting great causes, it is important to set realistic CSR objectives. Select one charity partner to work with each year as this ensures all your fundraising efforts are channeled into one place so that the business is able to reach its targets much quicker. Having several projects and charities running simultaneously will make it extremely difficult to see any one of them through to completion.

3. Appoint a committee

With limited funds available, it is important for the business to have a thorough plan for what it is trying to achieve, with measurable objectives. In order to draw up a comprehensive CSR strategy, Start-up Company will need to appoint a dedicated team who are willing to donate a little bit of extra time outside of working hours. There are several personal benefits for staff members who join extra-curricular staff organizations. Being part of the CSR committee is a great opportunity for staff to demonstrate leadership and management skills outside of their role. Allocate a person or small team for each function – chairman, treasurer, publicity secretary – and always have a pool of willing volunteers on standby. This will ensure actions are delegated fairly and the organizing of key events does not become a burden on a few members of staff only.

4. It doesn't have to be expensive

While every charity needs money, human resource is often needed just as much. Most charities are in desperate need of man-power to help with anything from volunteering at events to shaking a bucket on the high street. Sharing your employees' professional skills to a charity or its end users is another easy, cost-efficient way of giving back. For example, if the start-up company's chosen charity has a limited online presence, consider lending its web developers for a day to help re-vamp their website and establish a basic social media schedule. This partnership means the charity becomes more self-sufficient and better equipped to make use of their existing resources, thus making a real difference.

5. Think local

It is likely that there are a lot of local community initiatives around the business that are in desperate need of funds or time; so, scout around before start looking at bigger national charities. Local charities often have much smaller financial budgets to spend on big marketing campaigns to recruit volunteers or raise money and, as such, often get overlooked. Launching partnership with a local community initiative can help in building a great long-term support for a start-up from those within your immediate vicinity. One of the best advantages of supporting a local charity is that the results of time or fundraising efforts by the start-ups are immediately noticeable.

6. Keep fundraisers realistic

Start-ups don't need to host huge fundraising dinners for your charity. In fact, hosting several small scale fundraisers is a great way of ensuring that the company has a continuous stream of donations coming in and it means it can plan CSR events more effectively. Organising internal social events instils a greater sense of community within the organisation and will increase the employee's propensity to participate and donate. There are several fundraising events that are cost-efficient and require minimal organisation yet can yield significant amounts of money for chosen charity. Company quiz nights, bake-offs, sponsored hikes or bike rides all encourage a healthy sense of competition for a great cause and will guarantee high attendance.

"Having all hands on deck is essential for any small business that wants to establish a comprehensive CSR program," Jared Kelleher, Chairman of the CSR Committee at Expert Market says "this year Expert Market recruited 16 staff members into its CSR committee which has resulted in more charity socials and volunteer sign-ups than ever before. Having a large committee means the start-up company can maintain a steady stream of fresh ideas whilst ensuring there are always people around to turn the ideas into reality."

CONCLUSION

This research study has revealed that the inclusion of corporate social responsibility is a vital component to the success of start-ups at the start-up level. It is in the nature of CSR, the prerequisite of evolution and development in line with social and environmental changes. In this very fast changing and globalized world, social responsibility has become an integral part of the corporate strategy. Businesses create opportunities through combining already existing products, services or processes. Opportunity identification is a creative structuring processbringing strong evidence to support the idea of social responsibility strategy at the start-up level. This paper examined the issue of integrating CSR principles and practices at the start-up level so as to stimulate opportunity identification. It indicates that CSR may be promoted at the start-up level and beyond as a means of nurturing creativity and innovation, through increasing the entrepreneurs' creativity and therefore their ability to elaborate new products and services. Indeed, rather than thinking about CSR as a costly externality, start-up ventures may profitably try to integrate CSR in their strategy with a view to gaining competitive advantage on their markets, as evidence exists that CSR positively affects financial performance, customer retention and brand image. Corporate social responsibility leaves a positive impact on start-ups growth and profits. The start-up companies must understand the wider impact of social responsibility strategies on its business because it can provide new business opportunities for the Start-ups to succeed in the market. It has revealed that corporate social responsibility is a strategic resource used by the start-up companies for opportunity identification at the start-up level.

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