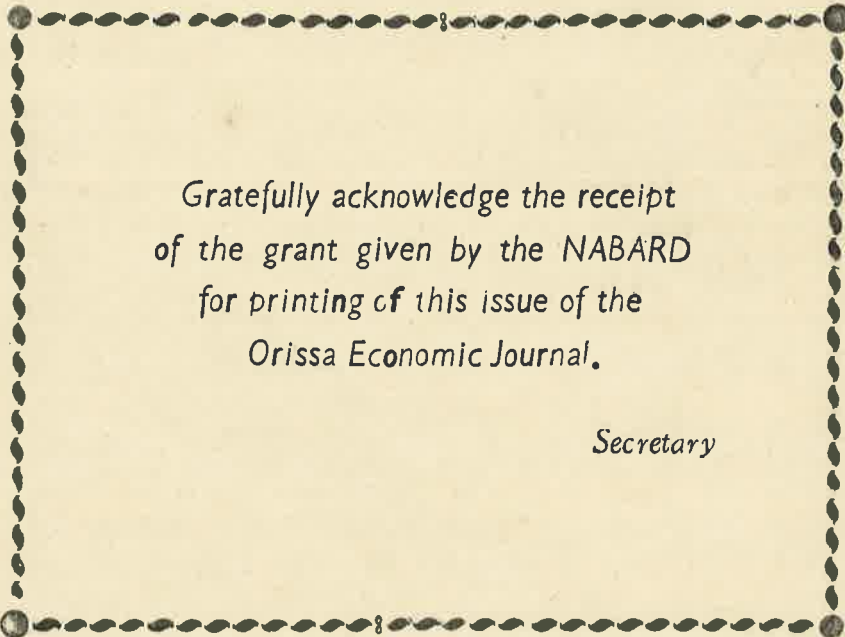


# ORISSA ECONOMIC JOURNAL

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Jan-June & July-Dec.1993



ORISSA ECONOMICS  
ASSOCIATION



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*Secretary*

# ORISSA ECONOMIC JOURNAL

Vol. XXV, No. 1 & 2  
Jan-June & July-Dec. 1993

*Editor :*

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ASSOCIATION  
BHUBANESWAR**

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## Silver Jubilee Conference—1993

### Secretary's Report

Mr. President, Dr. Mishra,

Hon'ble Chief Minister of Orissa Sri Biju Patnaik

Hon'ble Union Minister for Information and Broadcasting

Sri K. P. Singh Deo

The most revered Dr. Sadasiv Misra

Respected former Presidents of the Association

Principal and the Chairman of the Reception Committee Dr. P. K. Mishra

Local Secretary Dr. Bedabati Mohanty

Organising Secretaries Dr. Shibanaya Mishra and Dr. Bidyadhar Nayak

Fellow Delegates, distinguished guests, invitees,

Ladies and gentlemen.

As the Secretary, Orissa Economics Association, I feel privileged extending you all a cordial welcome to the Silver Jubilee Conference of the Association.

The Orissa Economics Association was founded in the year 1967-68 with the main objective of studying indepth by its members the problems of economic development in Orissa and to recommend measures to resolve the issues relating thereto. With this end in view, we have been regularly organising the Annual Conferences since the year of the inception of the Association. We are all proud of the fact that the Association is organising the Silver Jubilee Conference this year at the same venue where it was born 25 years back.

The Orissa Economics Association has at present 209 members out of which 153 are Life Members. It publishes a journal each year which contains the research papers of the members discussed in the Conference. Finance has now been a serious constraint on the activities of the Association. In the meantime, the volume of the journal has increased considerably along with the printing cost. The printing cost of the journal is now in the proximity of Rs. 11,000/-. We receive a maximum grant of Rs. 4,000/- from the Government of Orissa and another two to three thousand from the new members. These are the only sources of receipts of the Association.

The Orissa Economics Association is the only forum in the state in which various economic problems of national and regional dimension

are discussed. Eminent economists, administrators, planners, businessmen participate in the deliberations of the Conference. It is this forum, the august body of eminent academics and experts, that has from time to time undertaken the task of studying the genesis of the problems of economic development in Orissa and recommended policy measures.

This year we have selected two topics for discussion in the present Conference : (1) Full Convertibility of Rupee and its Impact on the Economy and (2) Integrated Woman and Child Development in Orissa : Problems and Prospects. While the former is of national importance, the latter has a strong relevance in the context of woman and child development in Orissa.

Since 1987, we have been organising a lecture in honour of Bhubaneswar Mangaraj, an illustrious teacher from Banki. Eminent economists of the state deliver their valuable lectures on this occasion on current economic issues. Dr. Ghanashyam Das, Emeritus Fellow in Economics, Utkal University has given his kind consent to deliver the year's lecture on 'The New Economic Policies of India - 1991 : A study of the New Economic Horizon'.

I am extremely grateful to the Principal of the College who is also the Chairman of the Reception Committee, Professor and Head of the Department of Economics, Local Secretary, Organising Secretaries, the staff and students of the Post-Graduate Department of Economics, Ravenshaw College for their tireless efforts in organising the Conference. I express my sincere gratitude to the NABARD for being committed to provide us a grant to publish the proceedings of the Conference. I express my deep sense of gratitude to all former Presidents of the Association for their timely advice. I really owe a great deal to all the members of the Executive Body—President Dr. S. N. Mishra, Vice-President Dr. K. B. Das, Assistant Secretary Dr. S. K. Das and Editor of the Journal Dr. Baidyanath Misra and other members for their kind co-operation. My special thanks are due to former Secretaries of the Association Sri B. P. Dash, Sri R. K. Mishra and Dr. B. Nayak. My thanks are due to M/s. Das and Associates, Chartered Accountants who took the trouble of auditing the accounts of the Association without charging a fee.

I am grateful to the delegates, paper writers, invitees, guests and to you all ladies and gentlemen for your co-operation to make the Conference a success.

Thanking you all.

**Bimal. K. Mohanty**



**Silver Jubilee Conference—1993**

**PRESIDENTIAL ADDRESS**

**Industrial Policy of India  
Under the Liberalised Regime**

**Dr. Surendra Nath Mishra**

Professor of Economics  
Ravenshaw College, Cuttack

I am grateful to the distinguished members of the Orissa Economics Association for choosing me as the President for the current year. This year has the distinction of commemorating Silver Jubilee of the Orissa Economics Association adding a new dimension to the endeavours of the founding fathers to enable the state to rise to new height in the field of economic research and perception. We share to-day justly these proud moments with a sense of achievement as we look back on the eventful years of the past without any complacency in our efforts to face the phenomenal challenges of the future.

I propose to share with you some stray thoughts on the industrial policy of India in the wake of the new convulsions in the dynamics of the macroeconomic management of our economy under a regime of liberalisation.

**PRELUDE TO LIBERALISATION  
—THE CONTROL REGIME**

The industrial strategies of the fifties started with one sector Harrod-Domar model which linked present investment of future expansion of output. The Mahalanobis model with its root in the socialist ideology recognised that saving need to be converted into investment goods. Investment goods and consumption goods were two products and the investment had to be allocated in the two sectors. Again we had the multisectoral Leontief input-output system which recognised the need for maintaining consistency of material balance across all the sectors. Amidst this wide maze of western models transplanted on the Indian soil, the Keynesian syndrome was inducted with its emphasis on acceleration of public investment and cheap money policy to generate employment and income, although the genesis of the theory was cast in the mould of a depressionary scenario. All these models reflected in our

planning mechanism had to be carried out by the state on the plea that a country of India's size and dimension freed from the distortion of the colonial legacy should plan out all the major sectors of the economy through rigorous control and regulation. The aberrations of the market could not take care of the developmental goals of a steady and exponential growth, equitable income distribution and eradication of poverty. A socialist thrust to industrial planning was considered a desideratum, since industrialization was in a primitive stage, needing the patronage of the state to progress in the right direction. While competitive market might be the best way of organising the production and distribution of goods in the west, a developing country like India could only work within the parameters of state control and regulation.

The industrial policy resolution of 1948 thus envisaged that "state must play a progressively active role in the development of the industries." It established exclusive monopoly of the Central Government in (i) manufacture of arms and ammunitions (ii) production and control of atomic energy (iii) ownership and control of railway transport. Further establishment of new undertakings in six other major industries (Coal, Iron, Steel, Aircraft Manufacture, Ship Building, Manufacture of Telephone, Telegraph & Wireless equipments) was made exclusive responsibility of the state except where the state itself found it necessary to secure the co-operation of private enterprise subject to such regulation and control as prescribed. Even the residual areas of industrial activities meant for the private enterprise were take over by the state.

The constitutional obligations enshrined in the Directive Principles of State Policy and Fundamental Rights and adoption by Parliament of the socialist pattern of society as the objective of social and economic policy made it imperative for the industrial policy resolution in 1956 which was more socialistic oriented and widened the scope of the public sector. The philosophy behind the concept of socialist pattern of society as the national objective required that all industries of a strategic nature should be in the public sector. The policy resolution of 1956 also reiterated the government's determination to provide all sorts of possible assistance for the accelerated development of cottage and small industries in view of the distinct advantage they possess in respect of generation of large scale employment, wider dispersal of industrial activities and more equitable distribution of income and wealth through diffusion of ownership.

The Planning Commission in 1960 appointed the Distribution of Income and Level of Living Committee under Prof. Mahalanobis to enquire into the pattern of income distribution. The Monopoly Enquiry Commission was formed in 1964 to enquire into the various aspects of the concentration of economic power. Professor Hazari was appointed by the Planning Commission as a Consultant to review the operation of the licensing under the IDR Act and to consider and suggest modifications. The main disclosures of the above reports are given below.

- (1) The working of the planned economy had led to the growth of big companies.
- (2) Industrial licensing system enabled the large industrial houses to obtain disproportionately large share of licenses.
- (3) The operation of the licensing system was not successful in achieving the objective of regional dispersal of industries.
- (4) The concentration of economic power was deepened rather than diffused.

On the basis of these observations and facts, a new industrial licensing policy was announced in 1970. The industrial licensing policy of 1970 restricted the role of the industrial houses and foreign concerns to the cost-heavy and export-oriented sector. The starting point of liberalization was the industrial policy of 1980 with emphasis on higher employment, correction of regional imbalance, promoting optimum inter-sectoral relationship, faster promotion of export-oriented and import-substituting industries. The Industrial (Development and Regulation) Act 1951, the MRTP Act and FERA were the other important Acts designed to control and regulate the industries through various measures, perpetuating a control regime in industrial sphere.

#### INDUSTRIAL PLANNING—THE LIBERALISED REGIME

In the early 1990's the country was faced with a major microeconomic imbalance with a large fiscal deficit and external deficit in the balance of payments. A distinction should be done between policy of macroeconomic stabilization and structural adjustment: stabilization addresses short term problems that need to be dealt with urgently i.e. inflation, loss of foreign exchange reserve, capital flight and large current account deficits. Structural adjustment addresses obstacles to long term growth i.e. distortions in production, prices, interest rates, taxes and subsidies. Then tasks should be undertaken simultaneously if the macroeconomic balance is to be restored and the level equilibrium



attained. Stabilization is often associated with domestic recession, rising unemployment and falling real wages. These negative syndromes of the economy should be neutralised by appropriate structural adjustment which increases output. Restructuring of the industrial policy along with trade policy is part of an integrated package to face non-sustainable imbalance of the economy.

The linkage between fiscal deficit and external payment deficit is well articulated. But a new dimension has been added to the impulses that propel a deficit in the external account in what is called "decaying total factor productivity." The perennial stress in India's balance of payments is due to the observed decay of total factor productivity in India's industry, while its trading partners have made significant strides. Liberalisation in the contours of industrial policy in a market friendly environment might spark off an escalation in factor productivity, so far as the industries are concerned.

The reforms initiated in the new industrial policy include (a) dismantling of the control regime under which the industries operated with constant bureaucratic interference, (b) abolition of the licensing for all industrial projects except for 18 specific categories, (c) policy relaxation in respect of MRTP act scrapping up the threshold limit of such companies, (d) liberalisation of the Foreign Exchange Regulation Act to encourage unfettered and greater flow of foreign capital investment, (e) Redefining the role of the public sector and expanding major areas of economic activities to the private sector, (f) greater thrust to the industrialisation of the backward areas, and (g) sustained growth in productivity and gainful employment.

The basic thrust area of the new industrial policy is that it opens up the economy to the frontiers of globalisation away from the controlled closed economy of the past. Indian industries were functioning in a sheltered market producing substandard products with obsolete technology. An overvalued exchange rate and import control together with the practice of import substitution closed down the avenues of exports. In a free open environment, there is unfettered flow of capital and technology so that industries are in a position to propel growth momentum through international competition. Both internal and external loan had become a vicious circle and it is difficult to salvage the country from the entrapped position except through adequate flow of foreign investment into the country under a liberal trade regime. The automatic protection mindless of the cost of import substitution and the elimination of virtually competitive spur to efficiency had been



the product of comprehensive exchange control that India had settled down, but the new policy negates this scenario.

### ABOLITION OF LICENSING

An industrial licensing was mandatory for investment above certain specified limits. This limit which had been Rs. 5 crores was raised for non-MRTP/FERA companies to Rs. 15 crores in case of projects in non-backward areas and to Rs. 50 crores in case of backward areas. A license was required not only for establishment of an undertaking but for substantial expansion of capacity of existing undertaking, manufacture of new items, continuation of business in certain cases and change of location of an industrial undertaking. The new policy has gone a long way in freeing the Indian industry from the shackles of control—industrial licensing has been abolished irrespective of the levels of investment for all industries except 18 specified industries which would continue to be scrutinised for security and strategic concern, social reason, safety and over-riding environmental concerns. Even goods of elitist consumption like cars have been excluded from the provision of licensing. The allocative function of licensing is no longer relevant in a liberalised market economy. One of the objectives of the licensing was to ensure optimal use of scarce resources through allocation on a planned priority basis so that use of resources is efficient. But if the market forces are to be revived, the allocational problem will be taken over by the market as reflected by the consumers' preferences. But the logic behind this agreement is diluted by the fact that in a developing economy with inequality in the distribution of income, class polarisation and diverse interest groups, the composition of the GDP should have some social norms. The licensing system was breeding corruption and vested interest. Certain market forces will emerge in course of time to ensure the rational allocation of the resources as the liberalisation process gains momentum. As Jagadish N. Bhagawati points out, detailed industrial targeting cannot possibly take into account the cost and benefit at a micro-level. Industrial licensing has either buttressed this targeting or made the non-targeted industrial project go through a series of meaningless bureaucratic scrutinies for which no rational criteria have ever been discovered. Import licensing in continuation with the principle of indigenous availability has conferred automatic protection on domestic industry regardless of cost. The pro-rata-to-capacity allocation of imported materials in continuation with automatic protection and licensing restriction on domestic entry eliminated virtually all effective foreign and domestic competitions. The

practically assured market for licensing units with elimination of domestic and foreign competition and the guaranteed share in the available input as soon as the capacity was licensed also meant that even when there was excess capacity in an industry, there could be still incentive to add to capacity. The Monopolies and Restrictive Trade Practices Act had originally two principal objectives:

- (1) Prevention and concentration of economic power to the common detriment.
- (2) Control of monopolistic, restrictive and other unfair trade practices.

The new policy acknowledged that with the growth and complexity of industrial structure and the need for achieving economies of scale for higher productivity and competitive advantage in the international market, the interference of the government through MRTP Act in investment decision of large companies had become deleterious in its effect of Indian industrial growth. With a view to preventing concentration of economic power, MRTP Act laid down that dominant undertakings with assets of Rs. one crore or more and other undertakings which together with inter-connected undertakings had assets of Rs. 100 crores or more should obtain the prior permission of the Central Government for establishment of new undertakings and substantial expansion of existing undertakings, merger amalgamation or takeover. The new policy has repealed these provisions. The MRTP Act will only confine itself to the second objective of control of monopolistic, restrictive and unfair trade practices.

The policy projections in these areas are in line with the environment of free and unfettered competition which is the hall-mark of liberalisation. The scrapping of the MRTP Act in relation to its primary objective along with delicensing of industries has minimised the possibilities of disguised capital flight from India to other countries. The evidence suggests that one of the most important motivations behind direct investment of Indians abroad has been the desire to escape the constraining effects of the internal policy environment that restricted their domestic growth and expansion. The licensing system and the provision of the MRTP Act were mere administrative instruments arbitrarily used to frustrate healthy growth of industries in a competitive environment. As Gunnar Myrdal points out that in a soft state like India characterised indiscipline in all fields, social policies get distorted through misuse—capacity expansion, merger and take over

of firms, so strictly forbidden by the MRTP Act as subversive of healthy growth of the economy were allowed to selected companies through corrupt means because an open system of competition was given up for a closed controlled economy.

Apprehension has been expressed that in the wake of integration of the Indian economy with the world economy, when there would be free flow of foreign investment into India and build up of collaboration ventures, the scope would be wide open for cartelisation and monopoly. The dismantling of administered allocation of imports, domestic materials and investment capacities would enhance significantly the competition faced by individual production units. The possibility that the new entrants may produce less expensively, the existing firms may outcompete and the rejection by the market of firms surviving through guaranteed subsidised access to scarce factors of production should produce pressure to cut cost and enhance competitiveness. The Monopoly and Restrictive Trade Practices Commission may examine if there is collusion between domestic and foreign producers. Internally of course, the MRTP Commission would identify unfair trade practices and penalise. A free and competitive environment does not mean that the market and the state are in a state of confrontation. At some points, appropriate state intervention of a benign type would rather help the market to gain resilience and avoid the distortions of the market forces to degenerate into monopoly and concentration of economic power.

#### **POLICY ON FOREIGN INVESTMENT**

A major thrust area of the new industrial scenario is the opening up of the economy to foreign investment along with transfer of technology. A number of measures have been taken to attract foreign capital :

(1) Under the new Industrial Policy, approval for foreign direct investment up to 51 percent equity in specified high priority industries is to be given automatically subject to the condition that dividend payment should be balanced by export earning over a specified period of time. This condition of dividend balancing was withdrawn in respect of approval of all foreign investments except some notified consumer good industries.

(2) Automatic approval of the RBI for raising foreign equity upto 51 per cent will be available to companies wishing to raise foreign equity as part of the expansion programme. Such companies can issue equity abroad at prices determined by special resolution.



(3) Foreign Exchange Regulation Act (FERA) was substantially liberalised through an ordinance. All restrictions on FERA companies in the matter of borrowing funds or raising deposits in India as well as taking over or creating any interest in business in Indian companies have been removed. Indian companies and Indian nationals are now allowed to start joint ventures abroad and accept directorship in overseas companies.

(4) Non-resident Indians (NRIs) and overseas corporate bodies predominantly owned by them are allowed to invest 100 per cent foreign equity with full benefits of repatriation of capital.

(5) A High Powered Board will be constituted to negotiate with a large number of international firms and approach them for direct investment in select areas.

The strategy of direct foreign investment is routed in the world economic scenario. Small countries of south-east Asia like Korea, Taiwan, Singapore and a giant like China with a different ideological structure have attracted massive foreign investment while India has languished far behind. In the international world order, foreign investment is expected to play a major role in bridging the gap between the North and the South. The compulsions of the Indian situation make foreign investment an imperative condition of growth. The country is seriously afflicted by a huge balance of payment deficit, and a debt trap of unprecedented magnitude. Debt servicing charges account for 40 per cent of the current revenue. Our performance in the export sector is rather dismal mainly because the industries are in a poor shape with obsolete technology and substandard products which fuel domestic inflation, put pressure on the balance of payments and open up the floodgate of further debt. It is thus a vicious circle which can be broken when the industries are able to face foreign competition through up-gradation of technology and foreign investment. This can to a large extent supplant the need for foreign debt and give new thrust to the domestic industries. Several steps have been taken for export promotion in the budgets of the last two years. The unified exchange rate announced this year will boost up exports, attract NRI and foreign investment because an overvalued exchange rate which was not reflecting the demand-supply nexus or currencies contributed to the dilution of the competitive character of export goods in the international market.

On the other side of the spectrum, it is found that successive devaluation in the past three years, both open and concealed has not

increased the rate of growth of export. On the otherhand, it has negative trends. The focal point on the export front is not the elasticity responses to price. Even at these strategic level, the fast modernising countries have an edge over India because of their long standing structural reforms aiming at aggressive escalation of export potential. As regards the composition of exports, there is no visible change. Technology and managerial expertise can change the comparative advantage and bring about favourable shift in the export market vis-a-vis the global economy. Domestic efforts have their limitations and hence the thrust must emanate from exogenous directions.

During virtual removal of import licensing in 1992-93, total imports in 1992-93 in dollar are likely to be lower than in 1990-91. Corporate capital issues inspite of the scam in 1992 were 67 per cent higher than in the previous year. Foreign investors are showing signs of active interest in many sectors including capital infrastructure such as power and petroleum. Since August 1991, approval given for foreign investment proposals up to the end of January amounts to an equity investment of 2.3 billion dollars. As investment climate for foreign equity participation specially by the NRI appears to be emerging with wide potential for the future.

One cannot however be oblivious of the constraints on foreign investment. In the seventies, the U. K. pledged that advanced nations should grant at least 1 per cent of their GDP to the developing countries. Mahbub UL Haq in his "Poverty Curtain" has made a scathing reference to the colonisation of England and the plundering of our resources over centuries. That would amount to billions or trillions of dollars.

According to him, England should be prepared to give back if not the principal, at least a nominal interest charges over it which would be a sizable amount. A reverse flow of colonised plunder of resources, at least a microscopic part of it, is quite a legitimate claim of this country. However the scenario of global flow of resources is grim with ever shrinking aid flow to developing countries even with more and more rigorous conditionalities as the North-South polarization assumes a tragic dimension.

Given the nature as the aid flow and pattern of distribution of international liquidity, including the loans of the I. M. F. and other multilateral agencies, a programme of liberalization by itself would not attract sufficient capital investment. On the otherhand, the advanced

countries of Eastern Europe which have also joined the process of liberalisation are likely to be more logical targets for aid and financial flow since a strong macroeconomic foundation is already present there to sustain the profitability of investment of the foreign companies and multinationals.

The multinational corporations will be invited to priority areas of investment including power, telecommunication and road. By virtue of their giant character, magnitude of investment and latest technology, they are likely to penetrate deep into the fabric of industrial sectors, even in non-priority areas taking advantage of liberalisation and swamp the Indian industries. It is sometimes therefore pertinently asked as to whether the policy of foreign investment is not totally antithetical to the policy of self-reliance. Once dependency is perpetuated, it remains as a permanent feature and creates further self-generating force of dependency.

But self-reliance has to be interpreted in a new way. It is not one country going in for an inward-looking policy trying out to build an edifice of development with available resources. Self-reliance in the present context of global reforms involves an interaction and interdependence, each one trying to help the other in a co-ordinated effort at maximising the benefit for all.

The cost of structural adjustment has to be borne by the vulnerable sections of the employees in the form of retrenchment, loss of job and unemployment. When the foreign investment and technology flow into the country, they will be deployed mostly in high technology capital intensive and import intensive sectors. The process of modernization and up-gradation of technology will involve massive unemployment. Efforts should be done to divide the cost of adjustment optimally among all sections of the community. The beneficiaries of the structural adjustment should be prepared to pay a part of the cost commensurate with their benefit to pay for those who are victims of the adjustment programme.

The National Renewal Fund is a mechanism for training and redeployment of the personnel affected by the structural adjustment programme. The idea should be not to make the poor and unemployed the victims of the burden of adjustment, but use them in a subsequent phase in macro productive investment so that decay in the total factor productivity is reversed allowing sustainable development to evolve. All of them should be brought under a safety net for which sizeable investment is necessary.



## POLICY ON PUBLIC ENTERPRISE

A major restructuring of the public enterprise has been planned in the new industrial policy. The emphasis has shifted from public ownership of the strategic areas of development to privatisation. The main highlights of the new policy are the following.

- (a) The public sector shall be confined to eight core areas relating to strategic, high tech and essential infrastructure. A recent modification now permits privatisation of some major core infrastructural fields like power.
- (b) Gradual expansion of the private sector to embrace ultimately the entire fabric of the society.
- (c) Disinvestment of the share of public sector to private individuals, mutual fund and financial institutions by 20 per cent. The public sector has faced serious problem after the end of the euphoria over socialism. The insufficient growth in productivity, poor project management, over staffing, lack of continuous technological upgradation and inadequate attention to R & D and human resource development have tarnished the image of public sector.

The objectives behind the concept of public sector were two-fold (a) to act as a catalytic agent for the growth of the core infrastructural and strategic sectors, (b) to use the surplus generated for recycling into further instrument and to ensure the equitable distribution of income.

Any realistic assessment would show that the public sector has not performed well in both these areas compared to the investment made in it. As commanding heights of the economy, it was supposed to sustain the budgets but most of the public sector units are sustained by budgetary support. The extent of loss reflected in the financial performance of the public sector is also a cause of fiscal deficit with its concomitant of macro economic imbalances.

The public sector was an integral part of a planned economy drawing its inspiration from the Marxist line of thought. It had an exceptional role as an engine of growth—a sort of tool which could have sparked off perhaps a Rostovian type of take-off. But the ramification of the public sector into a pervasive no-priority field was a major

distortion of policy. The accountability was eroded by the fact that the loss was made good by budgetary support—a contingency which is alien to the ethos of the functioning of the private sector.

The state as such is now not in a position control trade, commerce, industry, agriculture and technology. They are expanding at a very fast pace because of the technological revolution and therefore the market should take over more and more the economic functions of the state. The current wave of liberalisation and structural reform which have swept practically all over the globe promotes privatisation on a massive scale.

One can discern a similarity between two diametrically opposite approaches to planning in our country. A regime of socialist planning avowedly based on the ideological principle of redistributive justice and productive employment ended up with 'growth' as the final fall-out. In the present context when the reforms are under way, there is still emphasis on capital investment under the banner of privatisation with growth as the centre piece.

It is the time to go into consumption planning, minimum needs programme and productive employment as an additional package of programme to sustain real and genuine development. This would make the industrial policy a meaningful exercise which in the language of Holis B. Chenery combines "growth with redistribution".

The spirit of the industrial policy under the liberalised regime can best be summed up thus in the words of John Maynard Keynes: "The important things for government is not to do things which individuals are doing already and to do them a little better or a little worse but to do those things which are not done at all".



Bhubaneswar Mangaraj Lecture—1993

## The New Economic Policy of India-1991 : A Study of The New Economic Horizon

**G. S. Das**

Emeritus Fellow,  
Utkal University

July 24, 1991 remains a landmark in the economic life of India with the presentation of the Union budget for 1991-92 alongwith the announcement of the New Industrial Policy in the Parliament by the Union Finance Minister, Dr. Manmohan Singh. Together, they envisage a sea-change in the economic management of the nation. The principal message of the 1991-92 budget is that India would be ready to join the global economy through a suitable macro-economic adjustment. The object is to revive the sick and moribund Indian economy, which in the past has witnessed an ever-increasing budgetary gap, chronic balance-of-payments deficit, dwindling foreign exchange reserve, severe foreign exchange crunch, steep rate of inflation, and above all, an artificially maintained over-valued rupee exchange rate. Dr. Singh's message in his budget speech for 1991-92 reads : "There is no time to lose.....Any further postponement of macro-economic adjustment, long overdue, would mean that the balance-of-payments situation, now exceedingly difficult, would become unmanageable and inflation, already high, would exceed limits of tolerance."

With this note of caution, Dr. Singh has set out with his reform programme containing a two-pronged attack on the Indian economy, i. e., a fiscal adjustment as well as the balance-of-payments adjustment. The drastic changes envisaged are a mix of fiscal, monetary, industrial and commercial policies. Since then a series of reform measures have been introduced in the field of finance, industry, and trade. As a result, by 1993-94 the Indian economy has been brought back to the track with a reasonable degree of financial discipline and some positive signs of recovery. Today the economic scenario for India is somewhat optimistic with a lower fiscal deficit, lower rate of inflation, lower external payments deficit, higher level of foreign exchange reserve, improvement in the growth of agricultural and industrial output

and above all, a rise in the rate of growth of the economy. The most disquieting feature of the Indian economy in 1990-91 was that the country had lost credibility in the international market and that some pre-conditions were set out by the World Bank and I. M. F. for releasing further loans to India. It is somewhat heartening to note that the I.M.F. has released the February, '93 instalment of its standby loan to India amounting to 316 million dollars after being satisfied that India has fulfilled all the five macro-economic targets stipulated under the loan agreement. Policies of massive and all-round structural reforms were introduced with a view to increasing efficiency in resource use and improving our international competitiveness.

### 1. Fiscal Discipline :

The starting point in the diagnosis of the ailment of the Indian economy is the increasing disparity between the income and expenditure of the government over the years in the past, which has led to a widening of the gap between the income and expenditure of the economy as a whole. This, in its turn, is reflected in the external balance in the form of an increasing current account deficit. In this regard Dr. Singh observes : "Neither the government nor the economy can live beyond its means year after year. The room for manoeuvre, to live on borrowed money, does not exist any more...For improving the management of the economy, the starting point, and indeed the centre piece of our strategy should be a credible fiscal adjustment and macro-economic stabilisation during the current financial year (1991-92), to be followed by continued fiscal consolidation thereafter. This process would inevitably need three years, if not longer to complete. But there can be no adjustment without pain. The people must be prepared to make necessary sacrifices to preserve our economic independence and restore the health of our economy."

The fiscal deficit of the Government of India is estimated at more than 8 per cent of G. D. P. in 1990-91 as compared with 6 per cent at the beginning of 1980s and 4 per cent in the mid-seventies. Internal public debt of the Central Government has accumulated to about 55 per cent of the G.D.P. and interest payment alone constitutes about 4 per cent of G.D.P. and 20 per cent of the total expenditure of the Central Government. The magnitude of fiscal deficit has, however, actually declined to 6 per cent and 5 per cent of the G.D.P. in 1992-93 and 1993-94 respectively. Correction of fiscal deficit depends upon an increase in income and decrease in expenditure. Increase in compe-



titive efficiency of the industrial sector, increase in agricultural output suitable tax reforms will all add to the income. No less important is a bold and pragmatic approach to the perpetually sick public sector enterprises in this regard. On the other hand a reduction in non-plan expenditure as well as subsidies is likely to generate a wholesome effect on public expenditure. In this connection, Dr. Singh opines, "It shall be our endeavour to minimise the burden of adjustment on the poor. We are committed to adjustment with a human face."

The following issues are identified in the field of fiscal management and discipline :

1. Should our target be a balance between income and expenditure of the Central Government within a reasonable time-frame ? In other words, should our objective be a balance in the revenue account of the budget ? If so, what is that time frame ?
2. The process of consolidation of the economy and necessary macro-economic adjustment are likely to generate resources from within and would thereby curtail the fiscal deficit. In the absence of this, a mere curtailment of the fiscal deficit is likely to jeopardise our growth process.
3. How will this fiscal adjustment affect our foreign trade sector, i.e., exports, imports, and inflow of foreign capital etc. ?
4. Would this adjustment process adversely affect the poor relatively more than the rich, or the other way round ?

These issues need to be thrashed out in greater detail.

## 2. Monetary Management :

The report of the Committee on the financial system (CFS) under the chairmanship of M. Narasimham has observed : "A proper sequencing of the reforms is essential to its success. The liberalisation of the system can only succeed in an atmosphere of broad macro-economic stability. This stability not only calls for a drastic reduction in the revenue deficit but also that of the overall budgetary deficit and not merely of the fiscal deficit. The latter can be attained by scaling down plan investment on the infrastructure sector, both physical and social. Reforms in the financial management of the Indian economy require not

only a fiscal but also monetary discipline. The state of the financial sector of the economy during the past years has been precarious. Falling profitability, dubious loan portfolios, lack of credit discipline, politicised appointments of chief executives and the constant support extracted from the system to finance budgetary transactions are some of the principal maladies. There was a growing feeling that the system may just fall apart one day and this did exactly happen one year after, i.e., the historic Stock Exchange scam. The deterioration in the financial health of the system has reached a point where unless remedial measures are taken soon, it could further erode the real value of and the return on the savings entrusted to them (banks and FIs) and even have an adverse impact on depositor and investor confidence."

The CFS has provided an insight into some of the problems of the banking sector relating to political intervention by way of loan melas and general loan waivers, directed credit programmes, capital inadequacy, doubtful portfolio of assets pertaining to the loans given to large and medium industries. The following issues pertaining to the financial sector are identified for a detailed and in-depth study.

1. Should the banking sector and capital market in India be cleansed and if so, in what manner ?
2. Whether the policy of dear money or cheap money be pursued in the context of liberalisation and globalisation policies ?
3. Should we sacrifice the policy of directional credit programmes for the sake of profit and efficiency in the banking sector ?
4. Is it necessary to reduce the Statutory Liquidity Ratio (SLR) as well as Cash Reserve Ratio (CRR) for securing the long-term stability and viability of the financial sector ?

### 3. Industrial Policy :

The industrial sector in India has suffered a setback during 1990-91. So much so that the index of industrial production has registered a decline of 0.9 p. c. in April-November, 1991. A process of deceleration has resulted in industrial stagnation and lop-sided industrialisation. The industrial sector in India has operated in sheltered market, sheltered management, sheltered trade unions and under strict licensing and regulations over the past four decades. All these are counter-productive and tell upon the efficiency of Indian industries. There is the imperative

need to increase the efficiency and productivity of Indian industries. The reform package envisages that an element of competition coupled with delicensing and deregulation can bring about the desired objective of increased productivity and efficiency in the industrial sector to facilitate the process of globalisation. Our industrial output is neither cost-effective nor qualitative in the world market at present. It was only in 1980 that the need was felt for promoting competition in Indian industries through a process of modernisation and as a result, the industrial sector has recorded an annual growth rate of 8.5 p. c. during the Seventh Plan period. The need of the hour is to make our industrial sector vibrant and industrial output competitive as well as of international standards both in areas of quality and service.

The industrial sector in India was embroiled and clamped by rigid bureaucratic controls and regulations. There were the MRTP, FERA and elaborate licensing system. Furthermore, the private sector did not get an opportunity for a substantial participation in the industrial sector in the past as 47 p. c. of total investment in the industrial sector went to the public sector. This sector now expects that the new policies implemented since 1991 will correct distortions and lead to a higher rate of growth of output and exports. The process of liberalisation and opening up the Indian economy with the avowed objective of globalisation has already started so as to enable our economy to be an integral part of the world economy. The licensing Raj has virtually come to an end with the policies of increasing deregulation and thereby made our economy exposed to the global market facing the forces of international competition with the emphasis on market orientation. The rationale behind this process of reform is injection of elements of competition into hitherto sheltered and inefficient Indian industries for improving efficiency, raising productivity and meeting global opportunities and challenges. This reminds one of going back to the era of classical economics, that of Adam Smith, Ricardo, and J. S. Mill, whose work made Great Britain the theatre of Industrial Revolution during the 18th and 19th centuries.

The following issues are identified in the field of industrial management :

1. Is the process of globalisation timely for India ?
2. Is India going global in the right way ?



3. How far and to what extent the reform package will improve efficiency and raise productivity in Indian industries ?
4. How far and to what extent the industrial reform will help boosting up India's exports ?
5. Will the new regime attract more of foreign equity capital and help in the technological upgradation in Indian industries ?
6. Will the Exit Policy and privatisation of the PSUs succeed and yield the desired result ?

#### **4. Balance-of-Payments Adjustment :**

The balance-of-payments situation of India has been under pressure since 1985-86. The deterioration in the balance-of-payments situation has become severe since 1988-89. Foreign exchange reserves came down to an extremely critical level between July 1990 and June 1991. Even before the eruption of the foreign exchange crisis, the external payments position deteriorated on account of the increasing volume and value of imports, erosion of surpluses in the invisible account, increase in external commercial borrowings resulting in rising levels of external indebtedness, bunching of debt servicing obligations and a fairly large fiscal imbalance. The direct impact of the Gulf crisis between August 1990 and February 1991 on the country's balance-of-payments is estimated at 2887 million dollar. The current account deficit, which averaged 2328 million dollar during the Sixth Plan period increased to 3538 million dollar during the Seventh Plan period (1985-90). It worsened to 7294 million dollar in 1990-91 from 6241 million dollar in 1989-90. The fast deteriorating balance-of-payments position resulted in a weakening of international confidence in India. So much so, the international credit rating agencies rushed to downgrade the country's rating making it difficult for India to borrow from overseas commercial sources. In all, the foreign exchange crisis constituted a serious threat to the sustainability of the country's growth process.

To start with in July 1991, a two-stage exchange rate adjustment was made, by which the value of the rupee declined by 18 p.c. to 19 p.c. against major currencies, with a view to improving the balance-of-payments position. Exchange rate adjustment is important not only for improving trade balances but also private transfers. The continuous and rising current account deficits in the past have resulted in a large external debt.

The debt service burden accounts for 21 p.c. of the total current account receipts in 1990-91 and external debt, which has exceeded 76,000 million dollar in 1990-91, accounts for 28 p.c. of GDP. In 1992-93, a system of dual exchange rate was introduced with a partial convertibility of rupee. But in 1993-94, rupee has been made fully convertible in the trade account with a unified exchange rate.

**The following issues are identified :**

1. Current Account deficit need be contained on a priority basis.
2. Export promotion Vs. import substitution as alternative strategy.
3. Suitable measures for attracting Capital inflow.
4. Appropriate exchange rate policy for balance-of-payments management.

**The Political Aspect of Economic Liberalisation :**

No less important is the political aspect of the policy of economic liberalisation. As early as 1955, India is wedded to the policy of socialism. The Avadi Session of the All India Congress Committee has accepted the principle of a Socialistic pattern of Society for India. But socialism remains a myth in this land even after four decades of planned growth. Besides the physical and financial aspects of development, one has to bear in mind the political, social, anthropological and psychological aspects, all of which taken together have a strong bearing on the pace and pattern of development. Economic development of a country is not merely being impeded by the shortage of savings for investment, shortage of capital goods, raw materials and the like but also by a host of non-economic and non-capital factors like demographic imbalance, truncated social order with a pluralistic structure of society, traditional value system, and a relatively unstable political system, etc. A somewhat weak and unstable political system with the conspicuous lack of a political will, corrupt and inefficient bureaucracy, truncated educational system which has outlived its utility, disparate social order with stratification inhibiting social and economic mobility, as one finds them in India, tend to retard economic progress. The ingredients of the value systems in our country are in apparent conflict with the national aspirations for economic development. For example, some of the socio-political elements are in conflict with technological development and attainment of higher standards of living. Another important obstruction to economic development in our country is

the increasing mass disillusionment and frustration of the population with the rate of economic progress. The somewhat slow and unsatisfactory rate of economic progress of India in the past, increasing unemployment and under-employment, widening disparity between the rich and the poor, the visible & conspicuous dichotomy between the precepts and practice on the part of political leaders, a disproportionate allocation of the scarce investible resources to forms of unproductive investment rather than productive investment etc. tend to frustrate the process of development.

**The following issues are identified :**

1. Has the political evolution in India after independence been conducive to economic progress of the country ?
2. Is there a misplaced emphasis on socialism in India ?
3. Should democracy and political liberalisation in India coincide with economic liberalisation ?



**FULL CONVERTIBILITY OF RUPEE  
&  
ITS IMPACT ON THE ECONOMY**

FULL CONVERTIBILITY OF RUPEE

&

ITS IMPACT ON THE ECONOMY

# Full Convertibility of the Rupee

## Issues and Implications

H. K. Pradhan

The Union Budget 1993-94 introduces full convertibility of the rupee. The new system significantly liberalizes India's controlled trade regime as well as introduces floating exchange rates for all current and capital account transactions. The basket-linked exchange rate system which prevailed since September 1975 was replaced by a dual exchange rate system, effective 2nd March, 1992. The 1993-94 Budget eliminates the 60:40 norm of this dual exchange rate system and completely unifies the exchange rates of the rupee.

At present, considerable controversies and confusions exist among the industry circles, academic community and policy makers regarding the structure and implications of India's floating exchange regime. While the exporters have shown signs of euphoria, conjuring the romantic visions of higher profit margins through a much depreciated rupee, the industry circles have generally feared about the possible erosion of market share and competitiveness due to the substantial liberalization of trade and foreign investments.

Several issues are raised in the context of full convertibility of the rupee : What are the features of a convertible currency and how the rupee convertibility fits into this concept ? How will the free floating exchange rate system operate in India and what are its sustainability conditions ? How will the free market rates of the rupee affect exports, imports, capital flows, balance of payments and inflation ? If the full convertibility of the rupee is to succeed, what are its preconditions ? How the macroeconomic stabilization and floating be pursued together ? What are the trends in the exchange rates of the rupee in the medium term ? What if the rupee takes a plunge ? Do we have sufficient reserves to hold on to the stability of exchange rates ?

### Convertibility Semantics :

Ideally, a currency can be considered convertible if both residents and non-residents have unlimited freedom to use and exchange for any purpose whatsoever, at some definite rate of exchange. Very few

currencies will pass this theoretical maxim, although a large number of currencies are considered convertible with various degree of restrictions and controls.

The IME provides a working definition of convertibility under Article VIII that requires that "no member shall, without the approval of the Fund, impose restriction on making of payments and transfers for current transactions." The IMF concept only considers convertibility on current account, thus, leaving at the discretion of the country to regulate flows on capital account.

Generally, countries with currency convertibility have practised various degree of controls to suit national interests from time to time. Presently, many developing countries practise convertibility along with pegged or floating arrangements, dual or multiple exchange rates, surrender requirement of exchange accruals to monetary authorities and even discrimination between resident and non-resident convertibility. Thus, in practice, currency convertibility implies absence of restrictions on foreign exchange transactions and not necessarily on international trade of capital flows. The IMF clarifies this as follows :

"Thus, although a measure formulated as a quantitative limitation on imports will have the indirect effect of limiting payments, is not for that reason a restriction on payments within the meaning of the provision... Restrictions on trade do not become restrictions on payments within the meaning of Article VIII, because they are imposed for balance of payments reasons".

A fully convertible currency provides full freedom to both residents and non-residents to trade in goods, services and assets, thereby, integrates the domestic economy into the world economy. Convertibility on current account along with trade liberalization measures are expected to enhance competitiveness of domestic tradables and make the world prices to prevail in the domestic economy. Convertibility measures that accompany the easing of controls on foreign investments and capital inflows are expected to boost technology transfers and enhance productivity growth of the domestic economy. These measures act together to eliminate the economic distortions of an otherwise inward looking trade regime and, often, come as part of the Fund-Bank structural reforms.

#### **Rupee Convertibility :**

The adoption of convertibility and exchange unification were a part of the IMF-supported structural adjustment programme for India

that began in 1991. The timing of such reforms also coincided with the severe macroeconomic imbalances in India : the burgeoning current account deficits, the high debt build-up with rising debt-service ratio, the fall in foreign exchange reserves and high internal inflation.

The rupee convertibility process has been implemented since July 1991, involving several important elements : (a) the relaxations of the QR (Quantitative Restrictions) regime involving import quotas and licensings; (b) the reductions of the level and dispersions of the import tariff rates; (c) the elimination of several export subsidization schemes; (d) the liberalization of exchange restrictions on capital flows, particularly the inflows of foreign direct and portfolio investments, and (e) the introduction of the market-driven exchange rates of the rupee, instead of the administered system through the mechanism of the basket-peg.

The July '91 trade policy introduced the system of EXIM scrips, at a standard rate of 30 per cent of the fob value of exports to the exporters. The scrips were freely tradable in the open market, which fetched about 30 per cent premiums to the exporters. Due to certain operational difficulties of the EXIM scrip, this system was scrapped in the 1992-93 Budget and the "partial" convertibility of the rupee was introduced with effect from 1st March '92, whereby 60 per cent of all exports and inward remittances were convertible into rupees at the market determined rates and the remaining 40 per cent being surrendered to the Reserve Bank for financing of the essential imports. Thus, exporters were getting a rate equivalent to the weighted average of the market rate and the official rate (at 60 : 40 norm) while most of the private imports were paid at the market rates. The system of partial convertibility was considered as a tax on exporters, as 40 per cent of foreign exchange earnings were surrendered at a discount of over 15 per cent.

The 1993-94 Budget eliminates the dual exchange rate system, thus, completely floats the rupee in the foreign exchange markets. Under the present float, exporters can realise their entire earnings at the free market rate, while all imports, including the government imports consisting of petroleum, food, fertilizers and defence have also to be paid at free market rates. The new scheme is summarised at the end.

The substance of the convertibility efforts is to dispense with the discretionary management of foreign exchange and exchange rates and to adopt a more liberal and market driven exchange allocation process.



Through the elimination of sector specific export subsidies and the reduction of tariff rates and its dispersions it establishes unified exchange rates across product groups.

It needs to be noted here the full convertibility does not mean the unrestricted use of the rupee for all types of India's external transactions. All transactions are still conducted within the framework of exchange controls, as prescribed by the RBI. On trade account and on account of the receipt side of the invisibles, the rupee is fully convertible at market determine exchange rates. The payments side of the invisibles and receipts and payments on capital account are subject to exchange controls. However, exchange rates for all these permissible transactions are undertaken at the free market exchange rates.

#### **Why seek Convertibility ?**

What were the basic strains in the administered exchange allocation and exchange rate system in India which needed reforms ? First, the monetary and fiscal policies were inconsistent with the chosen nominal exchange rate targets. Extremely permissive money-financed fiscal deficits, particularly during the eighties, had severe repercussions in the form of spill-over effects on balance of payments. Inflation in India remained considerably higher than the combined inflection of her major trade partners, particularly during the eighties. The authorities had to frequently devalue the nominal exchange rates of the rupee to offset the inflation differentials between home and abroad and this created considerable political resistance (see Chart-1).

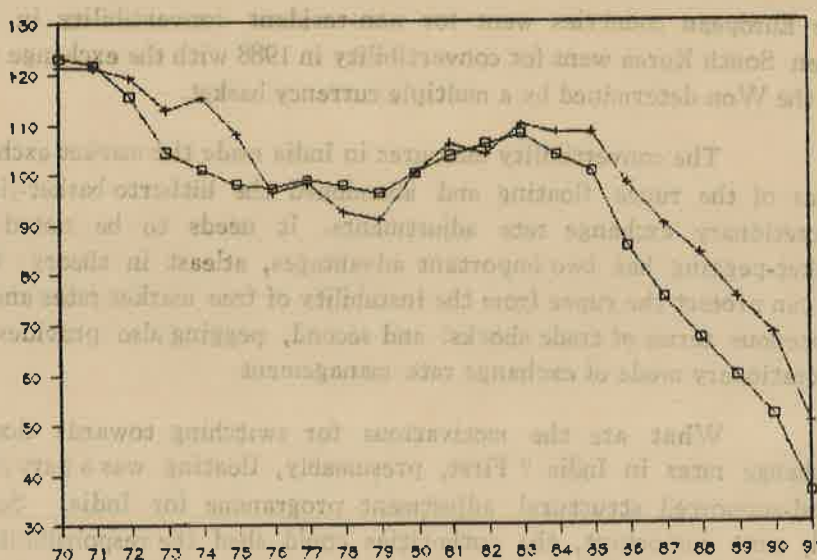
Second, the system of administered exchange allocations and rate fixation gave rise to parallel markets in foreign exchange, trade misinvoicings and capital flights. Persons who required the foreign exchange and were unable to get the same under the regulations in force had recourse to the 'hawala' markets and bought the required foreign exchange at premium rates. Some exporters underinvoiced their exchange earnings, thus, moved away the foreign exchange abroad or repatriating the same at a premium through the hawala routes. There has also been considerable leakage in the accruals of exchange earnings due to NRI remittances being routed through these markets.

Third, the unauthorised markets also acted as conduits for financing smuggling operations into and out of the country. The black market for foreign exchange was largely supported by the unofficial gold movements into India. Domestic gold price was higher and

increasing faster than the international gold prices and this supported the gold movements into India. Shri S. Venkataramanan, then Governor of the RBI, observed in his keynote address at the World Gold Conference, Switzerland, on June 22, 1992 that the gold smuggling into India over the last decade was estimated at 1080 tonnes, valued at \$ 12.2 billion.

**Chart-1 : Trends in Nominal and Effective Exchange Rates of the Rupee : 1970-91**

TRENDS IN NEER AND REER OF THE RUPEE



Source : Pradhan, H. K., (1992), *Effective Exchange Rates of the Rupee*, EXIM Bank Occasional Paper No. 21.

Finally, as has been widely recognised, the regime of import controls in India generated considerable rentseeking activities. Exchange control authorities usually lack internal information of the importing units and, therefore, often base their licensing allocations on an adhoc manner. Such extra import licences created secondary markets where high premiums were paid to procure a licence. Often the officials could be bribed to procure a licence.

The new foreign exchange regime seeks to alleviate the above strains. The market rate with significant depreciations of the rupee is expected to act as an incentive to exporters as well as disincentive for recourse to the 'hawala' markets. The premium on market rate is a kind

of self imposed restriction on the use of foreign exchange for imports. The new system, it is hoped, will balance the trade gap, boost non-resident repatriation, bridge the spread between legal and hawala rates and discourage capital flights.

#### **Feasibility of Floating :**

A currency can be convertible at a fixed, floating or flexibly adjusted (say basket-pegged) exchange rates. Convertibility on current account existed both under fixed and floating exchange rates. Countries, such as the US and Switzerland adopted convertibility in the forties and the European countries went for non-resident convertibility in 1958. Even South Korea went for convertibility in 1988 with the exchange rates of the Won determined by a multiple currency basket.

The convertibility measures in India made the market exchange rates of the rupee floating and abandoned the hitherto basket-linked discretionary exchange rate adjustments. It needs to be noted that basket-pegging has two important advantages, atleast in theory : first, it can protect the rupee from the instability of free market rates and the exogenous terms of trade shocks; and second, pegging also provides the discretionary mode of exchange rate management.

What are the motivations for switching towards floating exchange rates in India ? First, presumably, floating was a part of the Fund-supported structural adjustment programme for India. Second and, most important, the authorities could shed the responsibility of adjusting the exchange rates of the rupee and deciding the foreign exchange allocations. Since the authorities could not precommit to a policy of price stability by sticking to a target budget deficit, the inflationary pressures only created recurrent devaluations, and this received considerable political resistance.

The floating system could have been avoided at the present precarious balance of payments situations, for three main reasons : first floating requires a reasonably predictable monetary policy (more on this later); second, floating rate system can operate efficiently in the presence of well developed capital and foreign exchange markets; and third the present difficult balance of payments situation will be unsustainable if the rupee takes a deep plunge and capital flights assume momentum with the expectation of this plunge.



In recent years a number of developing countries have shifted from pegging to floating rate system as part of the Fund-Bank conditionalities. This does not imply that the potential benefits of pegging have become redundant over the years. Even industrialised countries have become completely disillusioned with the floating exchange rates that have witnessed unprecedented volatility and sharp swings and, in turn, looking towards an era of exchange market stability, in the form of target zone.

Exchange rate instability acts adversely on trade by increasing the uncertainty of cost-price structures. This can be particularly important in India as most of the currency hedging instruments do not exist and the working of forward markets are extremely inefficient and expensive. The forward rates in India are not determined by the interest rate differentials but by the demand and supply factors in the Indian markets. In an excess demand situation with the devaluation bias of the rupee, the importers have generally accepted the covers and have paid high premia on dollars.

#### **Balance of Payments Constraints :**

Basically two types of macroeconomic constraints that are tried to be resolved in the new regime : the balance of payment and the inflation constraints. The balance of payment constraint is sought to be alleviated through a market driven exchange allocation and exchange rate process. Once exchange rates are market determined and import controls abolished, firms who would be able to pay at the market rates will be using the imported inputs. The market rate is expected to self-balance the demand and supply of foreign exchange, thus, curbing the excess demand situation and correcting the present trade imbalances.

However the balance of payments improvement entirely depends on the export side. What if the new imports are not used to boost manufactured exports in a bigger way ? If the foreign exchange inflows get absorbed in the lesser priority and non-tradable sectors, additional exports will not be created and it will only accentuate the initial trade imbalances. The market driven exchange allocation process will also ignore the social priorities. One may have a situation of domestic production and consumption with imports that are primarily demanded by the affluent sections, who would be able to bear the market exchange rates, thus, leaving out more socially desirable inputs.

In the past, the import liberalization strategy had no discernible impact on industrial exports. Indeed, the evidence show that the

firms who got the best out of the trade liberalization contributed less towards the nation's foreign exchange earnings through exports, although its impact on the overall domestic industrial growth was commendable. Relatively bigger and cost efficient firms, who used most of the private imports, remained satisfied with the lucrative domestic markets and only the relatively small and inefficient ones went in search for external markets. Therefore, since there is no compulsions in the new regime on the importing firms to make an export target, the short run balance of payments implications remain uncertain. Over the medium run, after securing a reasonable degree of competitiveness and quality standards, an export-drive may be possible.

#### **Inflation Constraint :**

The Inflation constraint is embedded in the monetary-fiscal policy mix that may become inconsistent with the desired exchange rate. In a pegged regime with trade and exchange controls, economic agents expect a nominal crawl to offset the relative inflation between home and abroad and, by taking into account the wage-price dynamics, the cash flows are planned. Once exchange rates float with considerable easing of controls, any mismatch of expectations can create destabilising forces in the economy.

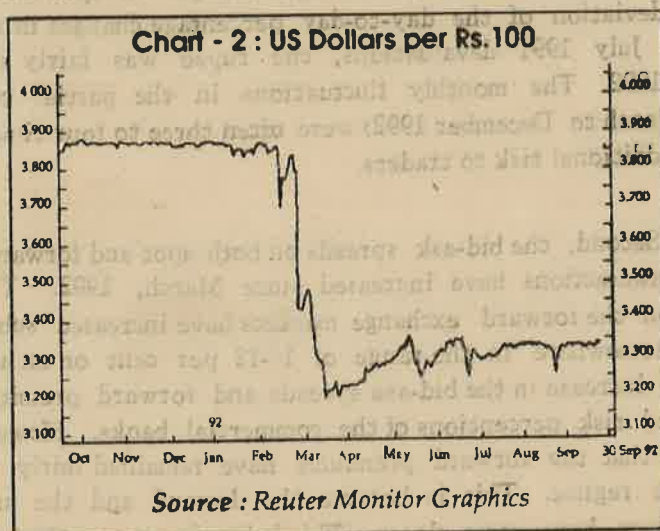
Consider a case of higher inflation at home that is not offset by a downward adjustment of the rupee. The exporters will delay the receipt, the importers will accelerate the payments and short run capital flight will gather momentum. High inflation and restricted credit conditions in the domestic economy that will not be reflected in exchange rate adjustments can inspire firms to raise foreign currency loans, equities or convertibles. This would lead to the dollarization of the domestic economy. This may also lead to artificial booms and busts in the domestic capital markets. Destabilising currency substitution can also occur if residents maintain working balances in foreign currencies, particularly when interest rate parity does not hold good.

In order for the macroeconomic reforms to succeed and convertibility to be effective, the inflation should be under control. The basket peg policy could accommodate the inflation i.e., the nominal rate could be adjusted frequently and in small steps to offset the inflation differential between home and abroad. To put the matter in another way, the exchange rate commitment with a basket-peg can provide a discipline on monetary policy.

### Exchange Markets Instability :

One important aspect that needs to be examined is the level and direction of the market driven rates. The current situation reveals an excess demand for foreign exchange with the depreciation bias for the rupee. However, the trend between March and December, 1992 showed an appreciation of the rupee-dollar rate, of course, amidst short-run fluctuations (see Chart-2). This rise was temporary and due to the import compression that had already taken place. With the rumours of full convertibility in the 1993-94 Budget and the new import orders appearing, the rupee slid to Rs. 33 a US dollar toward end-February.

There is no doubt that the current difficult balance of payments situation will remain over the next few years. The foreign exchange requirements of both public and private sectors remained low in the earlier QR regime. Since the industrial and import licensings are liberalised and the custom duties are reduced, the demand for foreign exchange will go up considerably. The recent decision of buying foreign exchange from the market for petroleum imports, kerosene, cooking gas, fertilizer, edible oil, etc. will put considerable strain on the demand side. Moreover, the outstanding debts of both public and private sectors are to be serviced. It needs to be noted that the required foreign capital for the Eighth Plan is unlikely to be forthcoming from official and commercial sources.



Since the majority of capital and current transactions will be routed through the free market rates, the Reserve Bank can hardly



intervene to stabilize the market rates with its limited reserve holdings. It needs to be noted here that interventions in the global exchange markets have been successful when done in a concerted manner and, that too, to neutralize the temporary speculative bubbles. Moreover, central banks have found it impossible to neutralize the impulses to medium run swings of major country exchange rates. The current holdings of reserves by RBI account for about \$ 8.8 billion, which have been possible by a severe import compression and borrowings from the Fund. Unless foreign exchange situation improves fast enough through direct investment flows, sharp rise in exports, remittances and net foreign borrowings through improvement in credit ratings, sustaining this reserve level will be difficult. Indeed there was a net outflow of foreign exchange on account of NRI deposits by \$ 318 million during April-September 1991-92, and a net inflow of \$ 44 million has occurred during the corresponding period of 1992-93.

Some observations on the exchange rate experience since March, 1992 are as follows: First the day-to-day fluctuations seem to have increased since the introduction of partial convertibility as compared to the previous regime (see Chart-2). There was daily variability of the rupee against US dollar, pound sterling, Japanese yen, deutsche mark and French franc. The variability is measured in two ways: the average absolute value of day-to-day percentage changes in spot rates and the standard deviation of the day-to-day percentage changes in spot rates. After the July 1991 devaluations, the rupee was fairly stable upto February 1992. The monthly fluctuations in the partial convertible regime (March to December 1992) were often three to four times higher, imposing additional risk to traders.

Second, the bid-ask spreads on both spot and forward foreign exchange transactions have increased since March, 1992. Third, the premium on the forward exchange markets have increased substantially averaging somewhere in the range of 10-12 per cent on an annualised basis. The increase in the bid-ask spreads and forward premiums show the increased risk perceptions of the commercial banks. However, one can observe that the forward premiums have remained fairly stable in the present regime. This is because the demand and the supply for forward covers have come closer. This is in contrast to the basket peg regime in which the forward market merely reflected the excess demand situation with only importers resorting for forward covers. This was natural in a continuous depreciating environment.

### **Parallel Markets and Capital Flights :**

The officially sanctioned dual exchange rates for the rupee has an important objective i. e., to narrow the premium between hawala and legal rates and eliminate the flight of capital. It is also stated to attract the foreign capital through the legal routes. The introduction of convertibility has certainly hit the hawala markets and the hawala rates have come down very close to the market rates. Much of this reduction has been achieved due to the free inflow of gold movement into India in the new regime. The gold inflows were liberalised in March '92, for returning Indians with a minimum stay of six months abroad and NRIs, to bring into India 5kg of gold subject to the payment of import duty in convertible currencies.

However, capital flights can occur for several other reasons. High tax regime, high inflation and expected currency depreciation and low real interest rates (on investments) have been found to be important factors for capital flights in many Latin American countries. It is also important to note that in a world of high capital mobility with instruments designed for capital market arbitrage, a clear distinction between current and capital accounts is difficult to maintain.

### **Depreciation : No Solution :**

It is clear by now that the introduction of partial convertibility in March 1992 was a surrogate for devaluation, when the rupee depreciated from Rs. 26 a US dollar to Rs 30 a US dollar. This fall occurred immediately after the market opened and the demand/supply forces actually established. The expectations of the full convertibility in the 1993-94 Budget triggered further depreciations of the market rate, with the rupee sliding to Rs. 33 a US dollar on February 26, '93.

India's exports have been determined by a host of external as well as internal factors and the exchange rate can be just one among the determinants. In case of primary exports and exports which basically originate from the primary sector, the demand and supply factors are more important. The external factors limiting India's exports may include slump in the global commodity prices, the revival of protectionism in the West, the changes in the Eastern Europe and the former Soviet Union and the shifting global comparative advantage towards inter-industry trade.

On the import side, depreciations may be insensitive to the volume of imports as well as to the production of import substitutes, as a sizeable portion of imports are price inelastic, typically contain crude

oil, fertilizer, edible oil, capital goods and imports under government account. The fiscal implications of depreciations are also important, as the government is the net spender of foreign exchange for imports and debt servicings.

Currency depreciation raises domestic costs of industrial inputs and the resulting wage-price dynamics may even wipe out the cost advantage gained by the export sectors. Even exports using much of the favoured imported inputs would be discouraged, compared with those using fewer or none. Indeed, at the present stage of development, the manufactured exports are conducted at too high cost to be competitive with the established manufacturing exports of advanced countries and the depreciation will create further cost escalation. As a matter of fact exchange rates for imports are now higher than exchange rates for exports at the aggregate, a situation termed as import substituting trade regime. The new regime encourages exports that do not require much imported inputs. Clearly this contradicts the current stance of reforms, which aims at improving the competitiveness of the Indian industries and promoting manufactured exports.

Conventional anti-inflationary policies through restriction in domestic demand cannot tackle the problem of depreciation-inflation spiral and, if pursued vigorously enough, it can create unemployment without touching the imported inflation in the export sector.

#### **Convertibility Preconditions :**

For the current account convertibility to be effective certain preconditions need to be satisfied. The preconditions are as follows :

(a) Sustainable External Balance : The first precondition is that the external balance must be sustainable over medium run. The current account deficits during April-September 1992-98 is estimated at \$ 4 billion, recording a rise of 50 percent over the corresponding period of 1991-92. During April-Sept. 1992-93, exports in dollar terms grew by only 5.3 percent as against the growth of imports by 23.4 percent. The sustainability of reforms entirely depends on the growth of exports, which has remained sluggish, inspite of the July 1991 and March 1992 devaluations of the rupee.

The volume of external debt is estimated at about \$ 85 billion, which can be considered unsustainable in relation to exports earnings, reserve holdings or net capital inflows. Commercial lenders still perceive India's credit ratings at 'BBB' grade, the status that is compatible with



the heavily indebted Latin American countries. The high level of debt and debt service ratio, deteriorating current account balance and, above all, uncertain political climate have all contributed to the erosion of India's credit ratings. Under the circumstances expecting the convertible rupee to correct the present difficult balance of payments situation is like putting the cart before the horse.

(b) **Appropriate Exchange Rate** : Another important requirement is that the real exchange rate must be consistent with the long run equilibrium level and the latter can be judged in relation to the sustainability of the balance of payments. The present exchange rate is grossly undervalued and was reached in March 1992, involving a tacit agreement between the RBI and the FEDAI. The understanding was that an equilibrium rate lies in the mid-way between the official and parallel market rates. The accepted market rate was Rs. 30 a US dollar when the prevailing official and parallel rates were respectively, Rs 25 and Rs 35 a US dollar.

It needs to be mentioned here that the parallel rate does not represent the market clearing equilibrium rate. It merely reflects the tightness of exchange and capital controls. Much of the premiums on parallel markets were due to the differential gold prices in India and international markets. Therefore, the parallel rate can be a misleading indicator of exchange rate adjustment necessary to correct the payments imbalances.

(c) **Adequate Reserves** : The holding of foreign exchange reserves must be adequate, for two reasons : to hold on to the required market exchange rate and to use as buffer stock against seasonal and cyclical shortfalls in the balance of payments. Second, reserve positions also act as a precondition to establish credibility of macroeconomic reforms and credit worthiness in the eyes of international lenders. The stock of reserves in December 92 was \$ 8.8 billion, of which gold holdings accounted for \$ 3.4 billion. The build up of reserves to this extent was possible due to import compressions and borrowings from international agencies. Obviously, borrowed reserves will not ensure the strength and credibility and, for the latter to be achieved, the reserves must be earned.

(d) **Sound Macroeconomic Policies** : Monetary and fiscal policies must maintain a reasonable degree of stability in the price level and in the macroeconomic environment. Reducing fiscal deficits has two important benefits : it restores internal balance by matching the supply-

demand forces in the non-tradables and also restores external balance through the generation of exportable surplus and import substitutes. Although the inflation rate has been declining and fiscal targets are tried to be achieved within limits prescribed by the IMF, strong monetary and fiscal controls are yet to be established.

(e) Strength of Tradable Goods Sector : An important precondition for introducing current account convertibility is the strength of the tradable goods sector to respond to world prices. Convertibility that accompanies removal of direct export subsidies & reduction of tariff and non-tariff restrictions on imports establishes unified exchange rates and makes the world prices to prevail for domestic tradables. However the exchange unification this way conflicts with the sector-specific goals in the presence of cost/price distortions in the economy. If a large part of domestic industries become uncompetitive with the opening up of the economy at the new (unified) exchange rates, loss of industrial output and employment will occur.

The microeconomic benefits of protection cannot be ignored altogether in the opening up process and the withdrawal of protection must be gradual and preannounced. This is important because the efficiency of the industrial sector cannot be improved in the short run nor resource reallocation is possible due to low resource mobility. A policy of preannounced tariff reduction schedule will have important benefits : it would discourage investment in inefficient import substituting industries and also provide sufficient time for the highly protected industries for restructuring operations.

Indeed, the floating exchange regime has been characterised by the persistence and even extension of sectoral protection in the advanced economies. Both industries and agriculture in the EEC have been protected with various non-tariff and subsidy measures. Japan was pursuing the policy of aggressive export subsidization during the period of overvalued Yen and imposed several restrictions on inward foreign investments. The tariff cuts in the Kennedy round of the multilateral trade negotiations particularly exempted several industries from the cuts, a measure designed to enhance the protections in the US.

#### **Lessons of Experience :**

There is no absolute version of convertibility; countries have introduced current account convertibility in accordance with their trade and balance of payments situations. Generally, convertibility has been

introduced after acquiring sufficient strength of the tradable goods sector and liberalising the industrial sector to respond to market forces. Nevertheless, very few countries have adopted convertibility as a means to correct balance of payments imbalances as is being done in India.

The United States and Switzerland introduced current account convertibility after the Second World War, by which time their economies had acquired competitive industrial structure and adequate reserves. The United Kingdom which introduced convertibility in July 1947 had to even abandon it in August the same year due to the pressures on sterling and capital flights. The Western European countries, including the UK, then tried to mobilise opinion for a collective approach to convertibility which finally took shape in 1958, but in very many restricted forms and with several bilateral trade agreements.

Convertibility measures were introduced in the newly industrialised economies (NICs) during the phases of their export-led growth strategies : Hongkong in 1961, Singapore and Malaysia in 1968, Taiwan in 1980, Korea and Indonesia in 1988 and Thailand in 1990. This shows that even countries such as Korea, Indonesia and Thailand introduced convertibility long after achieving the export-growth and industrialisation. It is important to note here that these NICs have maintained some kind of peg or managed exchange rate systems even to date.

It is rather disappointing to discover the most of the countries undertaking floatin exchange rates under the Fund supported adjustment programmes have yielded little results, and indeed, some of them have ended up with severe macro-economic instabilities and intractable balance of payments. In most of the cases, the programmes have yielded only substantial devaluations of the exchange rates, no matter what were the levels prevailing before the reforms. There were a number of cases where the reforms had to be reversed with increasing tariff walls, shifting back to pegged exchange rates and restoring controls on capital flows.

Take the case of Zambia which accepted the reforms in 1985 with the elimination of import licencings and the introduction of the auction systems for foreign exchange. The Kwacha fell from 2.2 a US dollar in the pre-reform period to 22 a US dollar in April 1987, when the auction system was abandoned and the fixed exchange rate system reinstated.

#### **Conclusion :**

The message of this article is clear : the introduction of the full convertibility of the rupee on trade account is a premature step,



considering the current macro economic imbalances of the Indian economy and the strength & competitiveness of the tradable goods sector. The basic macro-economic stability conditions are: low and stable inflation, low fiscal deficits, sustainable balance of payments and external debt and adequate foreign exchange reserves.

The reductions of the customs duties could have been moderate at one go and preannounced for any substantial reductions in future, keeping in view the sector-specific distortions. The move towards exchange unification this way may turn a large part of the domestic industries uncompetitive, resulting in the loss of output and employment. The system of partial convertibility should have been maintained for some more time, and closely monitoring the trends in exchange rates, trade and capital market situations. The rationale for introducing full convertibility should not be just to learn how it works and, finally, to withdraw if it becomes unstable (like the earlier exim scrip system). As is true of macro-economic reforms, the costs of reverting to the earlier regime can be very high.

#### CONVERTIBILITY FEATURES

- \* The exchange rates of the rupee are determined by the free market forces of demand and supply. The free market rates are quoted by the authorised dealers (ADs).
- \* Like any other market prices, the exchange rates, both spot and forward, can vary within a day, between days and even around medium term trend.
- \* All commercial transactions in the current and capital accounts are undertaken at the free-market driven rates, whether on government or private account.
- \* Foreign exchange remittances abroad are subject to exchange control regulations, although the ADs can remit in many areas upto certain amount without Reserve Bank's permissions. This implies that full convertibility is not applicable to the invisible trade.
- \* All exports proceeds and inward remittances need to be surrendered, with a 15 per cent retention option in a foreign currency account with the ADs.
- \* The intervention currency continues to be the US dollar, which the Reserve Bank can buy and sell from and to the ADs at its discretion. This route can provide temporary stability in the exchange markets.

- \* The Reserve Bank provides two-way quote of the US dollar which can change several times in a day, depending on market pressures.
- \* The Reserve Bank will not ordinarily buy or sell any other currency, either spot or forward; rather will undertake swap transactions with the ADs. A swap involves the Reserve Bank buying the US dollar spot and selling forward simultaneously for delivery in two to six months.
- \* The RBI will sell US dollars to the ADs at the market rate, for debt service payments on Government account and other payments, only as transitional arrangements, such as for meeting 40 per cent of the value of imports under advance licenses, special import licenses, REP licenses for imports of raw materials, gems and jewellery exports, and for meeting the full value of import under the outstanding EXIM scrips and such other licenses treated on par with these scrips.
- \* For trade with the Russian Republics where the invoicing is in freely convertible currency the market related exchange rates are applicable.
- \* Transactions routed through the ACU arrangement (except those settled in the Indian rupees) will be based on the Reserve Bank's rates for ACU currencies and for the Asian Monetary Unit.

## **Convertibility of Rupee or Formal/Informal to Informal Exchange Market**

**Kishor C. Samal**

Developing countries are forced to design their policies in tune with those pursued by capitalist developed countries. They adopt more flexible exchange rate system due to their Structural Adjustment Programme imposed by IMF/IBRD for their assistances. Most of these countries introduced the dual exchange rate system as a transitory steps toward a so-called unified exchange rate system or convertibility. Same is the case with India.

In the 1992-93 Union Budget, the Liberalised Exchange Rate Management system (LERMS) was introduced. Between the introduction of LERMS and the mid-February 1993, Indian Rupee depreciated by about 22 per cent in the open market in relation to official exchange rate. Since it was argued that the LERMS put an implicit tax on exporters, the so-called dual rate system (or partial convertibility) was abolished and a modified LERMS was introduced in 1993-94 Union Budget. Thus, the Indian Rupee started floating since March 2, 1993 but only with respect to current account. An important feature of full flexibility through an independent floating is that the rate of the home currency in terms of foreign currency is determined by market forces. Out of the two types of market arrangements in case of independent floating: viz. (i) the auction system and (ii) inter-bank spot exchange market; the second system has been adopted in India.

Green and Israd define full convertible currency as one "which any holder is free to convert at market exchange rate—fixed and flexible into one of the major international reserve currencies".<sup>1</sup> Various conditions are necessary to permit currency convertibility in one country particularly in the process of liberalisation. But neither the conditions for currency convertibility are present in India nor the Indian Rupee is convertible in the true sense of the term. At best there is flexibility in current account. It will be better to say the present exchange system as a "independent floating" of Rupee in current account.



### 1. Effect of "Floating" of Indian Rupee

For the CCFE loan, as recommended by the IMF-World Bank for its financial assistance on its report on Trade Reform in India, Indian Rupee was devalued by 20 per cent in July 1991. The "floating" of Rupee was also a condition imposed by IMF for its assistance.

#### 1. Depreciation/Devaluation :

The 'Partial' float or 'full' float is nothing but devaluation of Indian Rupee. Just before the "independent float" of Rupee under the modified LERMS, the official exchange rate was \$ 1 = Rs. 26.32, inter-bank clearing rate Rs. 33.06 and composite rate Rs. 33.32 on February 27, 1993. After the independent float of Rupee, open market rate was Rs. 32.00 on March 2, 1993—the first day of trading after full float, Rs. 31.86 on March 3, Rs. 31.34 on March 26 & around Rs. 31.32 in the months of April and May 1993. Thus, the official exchange rate of Indian Rupee in relation to US dollar got depreciated by 19 per cent (Table-1). There is also depreciation of Indian Rupee vis-a-vis SDR by about 24 per cent in April 1993 over February 1993. That is, the Indian Rupee per SDR changed from 34.76 in February 1993 to 44.45 in May 1993 (Table-2).

TABLE-1 Rupee per US Dollar

Period	Rs/US Dollar
February 28, 1992	25.04
March 3, 1992	25.89/29.20/27.87*
February 27, 1993	26.32/33.06/30.06*
May, 1993	31.32**

\* Official rate/market rate/composite rate.

\*\* Open market Rate.

Source : (i) Annual Report of RBI, 1991-92.

(ii) The Economic Times, Calcutta, various issues.

TABLE-2 Indian Rupee per SDR

Period	Rs/SDR
January 1991	25.80
January 1992	36.48
January 1993	35.99
February 1993	35.76
March 1993	43.10
April 1993	44.03
May 1993	44.25

Source : IMF Survey, 1991 to 1993, various issues.

Rupee would have depreciated more just after the independent (full) float but for a few factors such as, inflow of "parked" export proceeds which was held back by exporters before March 1993 due to rumour of possible full float of Rupee, large inflow of held-back remittance of different kinds including that of NRIs, etc. But the Rupee will further depreciate in future due to widening fiscal deficit and when the loan repayment (with additional burden due to depreciation of Rupee) to IMF and others will begin in 1994.

## 2. Vanishing of Implicit Export Tax and Monetisation of Deficit :

Under the LERMS, 40 per cent of the export earnings was surrendered at the official rate and 60 per cent was sold freely in the open market. Thus, if it was surrendered at the rate  $e$  and sold at the rate  $b$ , then the marginal return on export would be

$$0.6b + 0.4e$$

In India, according to our calculation the implicit tax on export earning was around 8.17 per cent. Again, the rate of growth (simple average of the annual percentage rate of change) of export during 1970-71 to 1991-92 was 12.02 per cent. On this basis, we make a projection of export value of India in 1993-94 which comes around Rs. 25,266 crore. At the rate of 8.17 per cent of implicit tax on export earnings, the loss of revenue due to the vanishing or implicit export tax is around Rs. 4,515 crore in 1993-94. Thus, due to loss of this revenue for vanishing of hidden implicit tax on export earnings, the fiscal deficit will widen. Since there is no scope of new tax instruments and loss of revenue of Rs. 3273 crore from import duties and Rs. 2249 crore from excise in 1993-94 union budget; there is every possibility of monetisation of deficit and hence inflation. Thus, the independent (full) float takes away a tax instrument (implicit export tax) which in the absence of accompanying fiscal reform must be compensated for by "inflation tax" leading to unequal distribution of income by affecting the poor. Hence, the burden of adjustment is transferred from exporters to common men.

## 3. Fall in Demand for Rupee and further Depreciation :

Due to depreciation of Indian Rupee and inflation owing to monetisation of fiscal deficit consequent upon the vanishing of revenue from implicit export tax, the share of home currency (Indian Rupee),  $M$  will go down in private sector financial wealth according to the following equation<sup>2</sup>

$$W = M + bF \dots (i)$$

where

W—Private sector wealth

M—home currency (Indian Rupee)

F—foreign exchange (US \$)

b—open market rate, i. e. Indian Rupee per unit of US \$ in the open market where—

$$b > e$$

e—the official exchange rate (Indian Rupee per unit of US dollar quoted by RBI).

The equation (1) is based on the assumption that :

i) Home residents hold two non-interest bearing assets in their portfolio.

ii) Home price, P adjust fully to open market.

Thus the equation (1) can be written as

$$M = \lambda \left( \frac{b \cdot}{b} \right) (M + bF) \dots (2)$$

Where

$\lambda$ —the desired fraction of Indian Rupee (home currency) in W

$\frac{b \cdot}{b}$  the rate at which open market rate depreciate.

and,

$$M = \lambda W \text{ and } \lambda = f(r)$$

where,

r—differential rate of return between Indian Rupee and US dollar.

From the equations (2), it is apparent that the desire share of Indian Rupee (home currency) goes down as the rate of currency depreciation and domestic inflation go up. That is.

$$M = f \left( \frac{b \cdot}{b} P \right) \\ (-) (-)$$

Thus, due to (i) depreciation of Rupee and expectation of further depreciation and (ii) possible inflation in future as well as the present home inflation being higher than the rate of inflation at 3 per cent in OECD countries, the share of M in the equation  $W = M + bF$  may fall. In the long-run, the demand for F may rise whereas the demand for M fall. In this typical situation there may be "currency substitution"—the use of a foreign currency as a store of value as well as medium of exchange.<sup>3</sup> In India, there is every possibility of currency substitu-



tion particularly the use of US dollar as a store of value of black money. Thus due to rise in demand for U.S. dollar in India because of shift in preference for non-interest bearing assets, which will lead to further depreciation of Rupee and inflation which will again lead to the vicious circle of depreciation and inflation.

## II. Illegal Informal Exchange Market

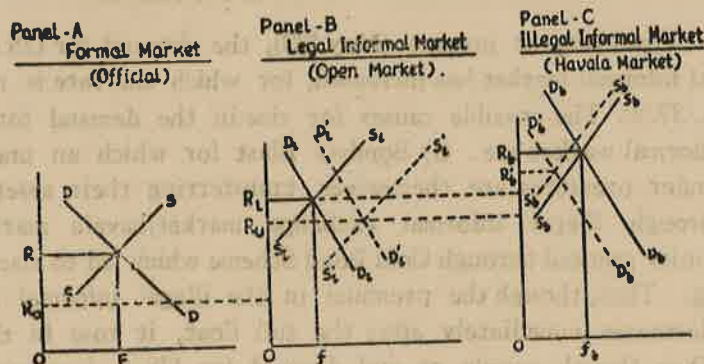
It is usually assumed that, if supported by appropriate monetary and fiscal policies, the independent (full) "float" may lead to the marginalisation of the illegal informal exchange market. A foreign exchange market can be classified into two categories : (i) formal (official) market and (ii) informal (unofficial) market. Further, informal exchange market can be divided into two sectors : (a) legal informal exchange market (open market) and (b) illegal informal exchange market (as havala market in India). Thus, under the so-called unified exchange rate system in India, there are actually two rates : legal informal market rate and illegal informal market rate.

Illegal informal market (or parallel market/curb market/black market) in foreign exchange develops in response to legal restrictions on its scale, ceiling on its price or both imposed by the authority.<sup>4</sup> But even under an independent (full) float, illegal informal exchange market operates, though marginalised, due to illegal trade consisting of (i) border smuggling and (ii) invoicing fraud. In the illegal informal market, foreign exchange is sold at a price above the formal exchange rate (official exchange rate). The smuggling and fake invoices are carried on due to prevalence of tariff and quotas. Illegal trade creates a demand for illegal currency. The demand for illegal currency in turn, stimulates its supply and leads to the emergence of illegal informal exchange market/parallel currency market. Again, the existence of high and positive premium in the illegal informal market creates incentives to divert export receipts from the legal informal market to illegal informal market.

Sources of demand and supply in illegal informal market differ from country to country and depend on nature and effectiveness of the authority's exchange restrictions.

The demand and supply situation changes when the exchange rate system switches from "partial" float to full float (Fig. I). Illegal informal market generally co-exists with, rather than replacing the formal exchange market or legal informal market. Immediate after full float,

the premium—the amount by which the illegal informal market rate exceeds the formal/legal informal rate—fall, as in panel-C in figure-I<sup>5</sup>.



Foreign Exchange (\$ per year)

Fig. I- FOREIGN EXCHANGE MARKET  
IMMEDIATE AFTER FULL FLOAT

In Figure-I :

### 1. When Partial Float :

$R$ —equilibrium price

$R_0$ —formal price (Rs. per \$)

$R_1$ —exchange rate in legal informal market (open market)

$R_b$ —exchange rate in illegal informal market (havala market)

### 2. After Full Float :

After full float, supply and demand curves in legal informal market (Panel-B) move to  $S_1$ ,  $S'_1$  and  $D_1$ ,  $D'_1$ , since supply of US \$ and demand for US \$ increase.

$R_u$ —the exchange rate after the full float

$R_u > R_0$  but  $R_u < R_1$

$R_b$ —the exchange rate in the illegal informal market after the full

$R_b' < R_b$  but  $R_b' > R_u$

The illegal informal rate/havala rate was reduced to \$ 1 = Rs. 34.65 just after the full float. Though the supply of US Dollar fell in illegal informal market, demand for US dollar also decreased just after the full float. Some portion of the amount earned by underinvoicing export were previously coming to this market. After the full float, since the exporters will be able to sell in the legal informal market (open market) the US dollar they earn, underinvoicing of export might be reduced,

though may continue to avail tariff. Previously those (like tourists with travellers' cheques) who were going to illegal informal market might not have gone to this market because of the fall in the premium.

However, at present (May '93), the demand for US dollar in the illegal informal market has increased, for which the rate is ruling at \$ 1 = Rs. 37.50. The possible causes for rise in the demand for US \$ in illegal informal market are : (i) Bombay Blast for which an underworld groups under pressures are themselves transferring their assets out of India through illegal informal exchange market/havala market, and (ii) immunity granted through Gold Bond Scheme which led to rise in gold smuggling. Thus, though the premium in the illegal informal exchange market decreases immediately after the full float, it rose in the later stage. Thus, though supply of and demand for US \$ decreased in the illegal informal exchange market; the rise in the premium may be due to the fact that the rate of fall in supply of US \$ is greater than the rate of fall in demand for US \$.

### III. Summary & Conclusion :

Thus, at present, the Indian Rupee is not a "convertible" currency nor is there a unified exchange rate in true sense of the term. In reality, foreign exchange market system has switched from formal/informal (legal and illegal) to informal (both legal and illegal) market.

### Notes and References :

I am thankful to Sri Shibal Meher for his help in preparing this paper. The responsibility of errors, if any, is entirely the author's.

1. *IMF Survey*, vol. 20, No. 13.
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3. See. G. A. Calvo & C. A. Vegh, "Currency substitution in High Inflation Countries", *Finance & Development*, Vol. 30 No. 1, March 1993, PP, 34-37.
4. For definition and other aspect of parallel/informal exchange market. See Pirre Richard Agenor (1993), *IMF Survey*, Vol. 22, No. 5, 1993.
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## Rupee's Full Convertibility : Its Repercussions on the Economy

Sushanta Kumar Mallick\*

### 1. Introduction :

In the last two years there have been some radical changes in policy in regard to the exchange rate of the Rupee. First, the rupee rate was adjusted downwards in two stages, on July 1 and July 3, 1991, which resulted in reduction in the external value of rupee by a little more than 20 per cent. And also immediately after July 4, 1991, EXIM scrips were introduced where 30 per cent of the export earnings could be exchanged at the free market rate. Secondly, as announced in the budget speech for 1992-93, the partial convertibility of the Rupee was introduced in the form of Liberalised Exchange Rate Management System (LERMS), which became effective from March 1, 1992. Thus rupee convertibility has become most topical of the latest trade policy reforms. The official rate stood at about Rs. 26, compared to earlier rate Rs. 19, to a dollar but the free market rate was well above Rs. 31 in havala and other transactions. Partial Convertibility under the LERMS specifies that 60% of the export earnings be converted into rupees at the market exchange rate and the rest of 40% at the RBI fixed exchange rate which is used by the government to finance imports of essential items like petroleum, edible oil, fertilisers, and life-saving drugs etc. Of late, official spokesmen have been saying that full convertibility of the Rupee on the current account (involving export, import and earnings from services like tourism, shipping, etc.) followed by that on capital account (including direct foreign investments, foreign loans, remittances etc.) will be introduced soon.

Therefore, it is perhaps an appropriate time to take stock of and assess the issues in currency convertibility. So this paper focuses on that task. The major theme of this paper is to explore as to what

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would be the likely effects of full convertibility of Rupee, if India were to make the Rupee fully convertible. Section II deals with basic ideas underlying currency convertibility. The conditions for convertibility are discussed in the section III. Section IV deals with the genesis of the problem by mentioning what happened to precipitate matters and trigger off changes in India. Lastly, the question as to whether full convertibility is possible or not, is examined in section V as implications of convertibility.

## **II Basics of Convertibility :**

What is convertibility ? It could mean broadly two things—unlimited right to convert a currency's holdings for any purpose and a similar right to pay it to persons in any country. The currency convertibility concept in its present connotation originated in the Bretton Woods era. Under the Bretton Woods agreement, the convertibility of currencies came into effect in the early 1960s. The Bretton Woods concept of convertibility had certain basic features :<sup>1</sup> (a) freedom of trade and payments for current account transactions, (b) application of fixed exchange rate (par value) in respect of payments for current account transactions, and (c) national endeavour to maintain adequate reserves, supplemented by multilateral reserves under the IMF quota system to meet any temporary shortfalls between supply of and demand for foreign exchange in the market. Capital account transactions were explicitly excluded from the purview of the Bretton Woods scheme of convertibility.

But full convertibility in the broader sense of the term means convertibility of the currency both on current account and capital account of balance of payments of a country. In the Indian context, the present arrangement of dual exchange rates is akin to internal convertibility of the rupee. Full convertibility in the narrow sense of the term would mean moving away from the existing dual exchange rate system and making the rupee fully convertible on the current account transactions only but not on the capital account.

## **III Conditions for Convertibility :**

Convertibility is indispensable for the attainment of maximum world output. Hence the question is : what are the fundamental imperatives for the economy to grow under a regime of freely floating exchange rate ? The standard answer in mainstream economics is that the convertibility of currencies, which is a great advantage for international trade, is contingent upon the following conditions.<sup>2</sup>

The first is the existence of balance of payments equilibrium. In this state, there will be equality between the payments any country has to make to other countries and the receipts it has to accept from other countries. Thus, there will be equality of multi-lateral payments between nations. In such a situation, there will be no difficulty to declare any currency fully convertible into any other as demand for and supply of each currency are equal to each other. In a situation of disequilibrium there will be surplus and deficit countries. The reserves of the former will increase and those of the latter decrease and finally get exhausted. Hence, the most essential condition for achieving a fuller convertibility of currencies is removal of the persistent disequilibrium in trade and payments between the surplus and the deficit countries.

The second condition making convertibility possible is the position of reserves. The external exchange reserves of the country whose currency is convertible are carefully matched and their level is treated as a vital factor in the maintenance of convertibility at a given exchange rate.

Lastly, the decisions taken by different countries making their currency convertible should be consistent one with the other; convertibility of currency 'a' into currency 'b' and of 'b' into 'c' has to imply convertibility of 'a' into 'c' also.

Unless and until these conditions are satisfied from a practical angle, convertibility may prove to be a costly and short-lived experiment. In particular, (a) an appropriate exchange rate, (b) adequate foreign exchange reserves on hand, (c) pursuit to sound macro-economic policies including the elimination of monetary overhang, and (d) ability to respond to market incentives on the part of economic agents constitute the necessary prerequisites for going into current account convertibility.

#### IV. Genesis of the Problem :

India has been experiencing a severe balance of payments crisis in the post-independence period. Despite continual policy modifications and new strategy implementations, the country often resorts to crisis management, which had negative repercussions on the economy. The recent Gulf War and political instability within the country had adverse effects pertaining to the BOPs position, as well as in the broader economic context. It is under these circumstances that IMF loan was taken with its conditionalities.



In 1990-91, to curtail the imports, a substantial number of items were transferred from the OGL to the licensing division. There were added restrictions on the import of capital goods and components, plus high cash margins in opening import-related letters of credit.

The new government in June 1991, focused on a more long term approach regarding trade and industrial policies. A key aspect inherent to the trade policy reform was the redesignation of the replenishment license system to the 'Exim Scrip' in July 1991. Under this more liberalised scheme, Exim Scrips were made available to all exports at the equitable rate of 30 per cent. Scrips were freely transferable and allowed the import of certain items without import licences.

Additional amendments to trade policies were set down in the 1992-93 budget, which were designed to level out the imbalance of payments situation. Import tariffs were further reduced. The Exim Scrip was replaced by a two-tier exchange rate system which prescribed a new framework in relation to foreign exchange remittances. Still the performance regarding inflow of foreign direct investments has now been disappointing. It is actually waiting for rupee to become fully convertible removing the present difference between the official rate and the market rate. Hence what is being talked about is to make the rupee fully convertible not only on trade account but also on current account basis.

The whole question of convertibility has acquired importance in view of the current talks with the team of International Monetary Fund (IMF) on the Extended Fund Facility (EFF) with a combination of Enhanced Structural Adjustment Facility (ESAF). The IMF is for a quick movement towards full convertibility of the rupee as it does not like dual exchange rate system.

#### **V Implications for India :**

Consider the fact that the government announces full convertibility of the rupee on the trade account. This will automatically mean that the entire volume of trade will be done on the basis of the market exchange rate. In other words, foodgrain imports, edible oils, petroleum products, defence equipment, and other essential imports will also have to be imported at the market exchange rate. The descriptor "market rate" is used to describe exchange rates determined largely by market forces; the "official rate" is an exchange rate set by the authorities, sometimes in a flexible manner. It is true that a shift from non-devalua-

tion to devaluation, from devaluation to partial convertibility and from partial convertibility to full convertibility generally involves a reduction in the value of the rupee. But it would be best if a shift to full convertibility is not accompanied by further devaluation. Clearly there would be positive and negative consequences of such an action.

Convertibility of the rupee on current account would mean that it will have to observe some well known rules under the purchasing power parity of currencies. The Purchasing Power Parity (PPP) theory states that equilibrium is said to be achieved when, at any point of time, a given amount of currency has the same purchasing power in one country as it does when converted to the local currency of the other. Thus, with currency convertibility, the relative prices in India will get aligned with the world prices and this would lead to an efficient allocation of resources in order to encast the competitive advantage and optimize the use of resources, resulting in an increase in productivity and efficiency.<sup>3</sup> This would imply that the level of exchange rate movement will be determined by the difference in inflation rate in India and abroad. This means that the rupee will depreciate or appreciate depending upon whether the inflation rate in India will be higher or lower than that of abroad. So if the inflation in India is, say 10% while that of abroad is around 6%, then the rupee will have to depreciate by 4% in order to keep the international competitiveness of the Indian products.

If we examine the full convertibility in the light of the foresaid conditions, only the second condition, i.e., the position of foreign exchange reserves, is fulfilled in the Indian context. In other words, the substantial increase in foreign exchange reserves may steer the economy to go in for full convertibility. Besides, if the rupee is made fully convertible and freely tradeable in the market, it will encourage a large number of Indians to bring their earnings back, which is cashed abroad. The fuller convertibility of the rupee is also desirable since most countries which are major trading partners of India are insisting upon free regime of trade. Likewise more private foreign investment (both direct and portfolio) is required for India to modernise and diversify its economy. That is the reason why the government is aiming at full convertibility of rupee so that the inflows can be expected to be strengthened by the inflow of private foreign investment into the economy. If these do materialise with the supply of foreign exchange remaining high and stable, there may be only one rate in the future, that is the market exchange rate.

Let us consider a situation where inward remittances have not started pouring in, in such a situation the demand for foreign exchange rises dramatically. If one believes in the demand-supply theory, the price of foreign exchange will rise sharply. In this case, three possibilities may occur. First, importers may decide to stop imports if imports become expensive, or else try and buy up more foreign exchange in the market than what they will normally require before the situation gets worse. The former presupposes a high price elasticity of import demand. Second, a high price of foreign exchange will mean that the rupee price of petroleum products has to go up. Next, fertiliser import prices will rise which in turn will mean domestic fertiliser prices will also have to go up to maintain fiscal stability. Third, domestic foodgrain prices will rise in sympathy and the government will not be able to contain the price through imports because the high exchange rate has ensured that imported foodgrains will be more expensive despite the subsidies offered by foreign governments.

Nevertheless, demand and supply are, in any case, the most important factors determining the variations in exchange rate. The aggregate demand is largely equivalent to the economy's forex gap over a period of time, so long as the gap includes the debt service obligations. In general, the forex gap is a negative function of the Savings-GDP ratio, trade balance, and foreign direct investment, and a positive function of debt servicing obligations. It is also a positive function of the demand for dollar in the black market. So long as forex gap keeps widening and becomes increasingly larger than the Saving-Investment gap, most growth factors can remain unfavourable. And this consequence due to adverse exchange rate variation (full convertibility) would almost necessarily contribute towards a higher debt-GNP ratio and rising debt-service obligations.<sup>4</sup> Since our imports are always higher than exports, exchange rates are bound to rise. Similarly, demand for international credit has remained higher than supply of credit. As a result, international financial agencies will certainly put a pressure to devalue the rupee. Taking the rules vs. discretion in monetary theory, Friedman argued for a rule of constant growth of money supply at a rate equal to growth in real output. He gives it long-run respectability although there may be short-run fluctuations in output and price level. Analogously under full convertibility, exchange rate can be allowed to move freely within a demand-supply framework until it reaches a stable fixed rate.

Moreover, full convertibility will result in the increase in the availability of foreign exchange, which would lead to an increase in



the money supply in the economy. This increase in money supply would contribute to a rise in inflation, which would cause a further decline in value of rupee. Also, since the government will have to make all its imports at higher market rates, this will lead to a substantial increase in government spending and hence the budgetary deficit. Additionally, all domestic manufacturers will hike up their prices because of cost push factors which will give a fresh impetus to the inflationary process.<sup>5</sup> Notwithstanding, we can think of making rupee fully convertible, after having brought down the inflation rate to a minimum level of two to three per cent. Recent European experience shows us that if we are hasty, we will end up like Russia where the consequences of fully convertible rouble has been disastrous. Besides, most countries have travelled on the fuller convertibility path including countries like Pakistan in the case of which export coverage for import was much lower than that in the case of India. Yet from all accounts, it appears that the Pakistani rupee has stabilised and that it has not come under crushing pressure as was feared earlier.

The Partial Convertibility (P.C.) of the rupee announced with much fanfare to give a boost to plummeting exports is on the contrary acting as an export disincentive and has actually stifled export growth. The adverse impact of P. C. is increasingly being seen by the exporting community as a major bottleneck responsible for the recent slow growth in exports. However, exporters contend that P.C. has proved to be detrimental to exports as it imposes a tax on exporters. While an exporter has to give 40% of his foreign exchange earnings at the rate fixed by the RBI, he has to pay for all his imports at the market determined exchange rate. They argue that since the latter is higher than the former, the reduces the incentive for export, which as it is present a very depressing scenario. Implicit in this contention is the fact that by having to finance their entire imports at the market rates and to convert 60% of its export earnings at market rates, exporters are faced with inflated production costs and erosion of export profitability. Exporters say that under the dual exchange rate mechanism, benefit of export earnings gets diluted at the time of import of inputs and raw materials. In fact, there is a strong feeling in the industry that the P.C. has not been an adequate compensation for withdrawal of Exim Scrips and the Cash Compensatory Support Scheme (CCSS) to those exporters whose import content is very high. So there is a need to have a unified exchange rate by going ahead with next obvious step, when the most important thing is to increase exports.

Interestingly, the World Bank which has been constantly advocating full convertibility of the rupee feels that the present dual exchange rate system is equivalent to a float coupled with an export tax. The solution that has been suggested by various quarters to the problems created by the exchange rate mechanism is full convertibility.

Nonetheless, Government is coming round to the view that full convertibility of the rupee at the earliest possible time is not only desirable but much needed if India is to keep pace with the changing environment in the international sector. Particularly, government is on the move to attain fuller convertibility of the rupee in trade transactions.

The question as to why the government is on the move to attain so is simply because of the positive performance of the government policies, especially in the areas of inflation rate and foreign exchange reserves. As is known, the rate of inflation is well below 9% compared to the threatening 14% last year. Again, the level of foreign exchange reserves today stand at more than \$ 6.5 billion, in which much is due to IMF loan and WB credit, significantly higher than \$ 1.5 billion in the middle of last year.

Therefore, one can conclude by saying that on the basis of the two points, the government may move into full convertibility of rupee on the current account, not on the capital account. This will enable the government to arrive at a stable exchange rate within a demand-supply framework. Hence, given the consequences of two-tier exchange rate system as outlined above, the government must dispense with the existing dual exchange rate system for a new experiment with full convertibility of rupee.

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# **Full-Convertibility of Rupee, A Step Forward of Partial Convertibility :**

## **A PROVISIONAL APPRAISAL**

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### **Introduction :**

In the beginning of the 1990's, Indian economy was facing serious economic crisis such as low growth rate, stagnated industrial and agricultural growth, doldrum financial sector, huge fiscal deficits, mounting inflationary pressure, a massive foreign debt and a serious trade gap reducing foreign exchange reserves to a miserably low level. At this juncture, Dr. Manmohan Singh, rose to the occasion & taking a bold step decided to go in for drastic action with sweeping reforms in the economy. Indian economy experimented a New Economic Policy (NEP) which bid a farewell to the age old Nehruvian Model of planning. Public Sector Undertakings (PSUs), which happened to be the pillars of Nehruvian Model were no longer the symbols of development and so privatisation proposals were laid down for a thorough restructuring of the Indian economy.

Realising the gravity of the situation, the immediate task before the government was to take urgent measures to improve the foreign exchange reserves of the country. The Finance Minister took a bold step in devaluating the rupee in July 1991 which comprised removal of the age old policy of import compression with more emphasis on export promotion. The most revolutionary step was partial convertibility of Rupee. As a step towards full convertibility in future, the liberalised Exchange Rate Management System (LERMS) aimed at boosting Indian exports on the one hand and to reduce the financial burden of payment of Exim Scrip to the exporters on the other. Similarly, the government followed a policy of liberal gold import policy allowing the NRIs to bring a maximum amount of 5 Kgs. of gold after at least six month's stay abroad on payment of import duty of Rs 450 per 10 grams.

The structural reform-cum-stabilisation programme through the NEP was initially aimed at short-term gains and ultimately to initiate on long-run reforms. Partial convertibility of foreign exchange,



reduction in number of items on 'banned' list of imports and liberal trade policy have led to a freer trade. The foreign exchange reserves are comfortably placed at over \$ 6 billion. The flow of foreign investment has been increased to Rs. 1800 crores during 1991-92 over the previous years. India's efforts in these lines have been appreciated by the World Bank. For example the World Bank report of August, 1992 observed that "in the last ten months India has overcome a macro-economic crisis and significantly improved its developmental policies. The process of reforms has just started. However, the challenges ahead are formidable.

#### **Convertibility—Meaning And Background :**

Convertibility normally means an exchange rate regime under which the government undertakes to convert its currency into foreign currencies (or gold) at a fixed exchange rate. So the announcement of rupee's partial convertibility implies that the conversion of foreign exchange into rupees have two rates, the official rate, applying to 40 per cent and rest 60 per cent to be converted into rupees at the market determined rate. The foreign exchange surrendered as per the official rate utilised for meeting the official import payments and such other imports certified by the government department. In this case the rupee is actually converted at the rate fixed by the Government. But what is the implication of this convertibility in case an importer who wants to import such items and asks for foreign exchange in return of rupees ? The importers of such items will not be entitled for rupee conversion into foreign exchange unless he is permitted to do so. Thus, it is still not convertibility in the true sense of the term.

The private importers will have to resort to the market determined supply of foreign exchange rate. In this case foreign exchange is determined by 60 p. c. of export earnings and the demand for imports at any point of time will determine the market rate of exchange. Thus, actually it implies that the market rate of exchange for the rupee is allowed to float.

#### **Partial Convertibility of Rupee And Gold Import Policy :**

The budget proposals for the year 1992-93 has made a revolutionary provision of partial convertibility of rupee which can be considered as an innovative improvement over the Indian foreign exchange regulation regime since the 1940's. Under the new system, 40 per cent of the total foreign exchange remitted to India from abroad is compulsorily converted into Indian rupee on official rate under

Liberalised Exchange Rate Management System (LERMS). The remaining 60 per cent can be converted on the basis of open market rate determined by demand and supply forces. Out of the 60 per cent, 15 per cent can be held by maintaining accounts with banks or with any authorised dealers of foreign exchange.

The implications of the partial convertibility of rupee are far reaching. First, under the new system, there are two types of exchange rates—one official exchange rate based on LERMS and the other open market exchange rate determined by demand and supply. There exists a difference of around 11-12 per cent in terms of Dollar, Pound Sterling etc. between the two rates and it was expected that it would stabilise at a minimum of around 10 per cent in future. It means all foreign exchange transactions would be carried on in white money. So this is an improvement over the strict foreign exchange control regime where people preferred to remit foreign exchange through 'Havala'. Thus, the system of partial convertibility is a measure of control over the 'Havala' transactions and it will encourage more transactions from the black to the main economy.

Secondly, under the old system of strict exchange control, a part of the hard currencies earned by the 'Havala' operators was used to finance the smuggling of gold. It is estimated that in India, there has been a substantial inflow of gold through the smuggling roughly to the tune of 180-200 tonnes per annum valued at about Rs. 5,000-6,000 crores. It was fetching a very good premium of 50 per cent or more at market prices in India, including the cost of smuggling. But in view of the gold import policy and abolition of Gold Control Act, the NRIs and Indian nationals are allowed to bring 5 Kgs. of gold as a part of their baggage after at least six months' stay abroad with payment of customs duty of Rs. 450 per 10 grams in foreign exchange. It will yield more profit and the consumer would also gain in terms of low prices.

The abolition of Gold Control Act and the introduction of liberal Gold Import Policy and Gold Bond Scheme intended at bringing at least a part of the parallel black economy into the white economy. It also aimed at giving a relief to the country's strenuous balance of payments pressure. These measures are to some extent logical corollaries to the policy of external liberalisation, which was followed with devaluation and introduction of Exim criss Scheme for the exporters in 1991.

While making a comparison of the implications of both partial convertibility of rupee and gold import policy, we can conclude that it is relatively more profitable from the peoples' point of view to bring in gold than to bring in foreign exchange because there exists a sizeable difference of 20-22 per cent between the domestic and international prices of gold even after the payment of customs duty. During the year 1992-93, the difference between these two prices has been decreased steeply to Rs. 1100-1200 per 10 grams and after paying the import duty of Rs. 450 per 10 grams there exists a sizeable surplus of Rs. 700-800. But in view of the striking balance of payments situation of the country, an inward foreign exchange remittance is more beneficial than bringing in gold. The latter will yield customs revenue at a specific rate while the former will bring in 40 per cent of the remittances to increase the country's foreign exchange reserves. The increase in foreign exchange will definitely improve the BOP problem. It has been observed that the foreign exchange reserves of the country increased surprisingly from a level of only Rs. 2400 crores in June, 1991 to over Rs. 11,000 crores in Mid 1992. Thus, there exists far reaching implications of partial convertibility of rupee introduced last year and the full convertibility of rupee in the 1993-94 budget.

#### **Full Convertibility of Rupee—Its Possible Implications :**

Full convertibility of rupee as a step forward of partial convertibility has been incorporated in the 1993-94 budget presented before the Parliament on 27th February, 1993 by Dr. Manmohan Singh. It is a revolutionary step taken by the Finance Minister being induced by the favourable contribution of the partial convertibility introduced last year.

Full convertibility of rupee means that the inward remittance of foreign exchange and inflow of gold will be fully convertible into Indian rupee at the market rate instead of two rates under the provision of partial convertibility. It is a proposal based on the system of partial convertibility and the previous system of dual exchange rate has been abolished. Full convertibility of rupee will be applicable to merchandise head under current account of BOP and finally it will be extended to the whole of the current account i.e. in the sphere of invisible trade, etc. In view of the embarkment of the Indian economy upon the road of liberalisation and more openness of the economy, the proposal of full convertibility can pave the way for taming the growth of parallel black economy and finally it will influence the process of BOP management more efficiently.



Full convertibility of rupee sounds good conceptually and on the basis of the empirical evidence in support of the measure of partial convertibility introduced last year. But it is very likely that some difficulties may arise when we implement it practically. The most important questions are : (a) which organisation or authority will undertake the implementation of full convertibility ? (b) What will be the possible implications of the proposal in the context of BOP Management and Structural Adjustment Programme (SAP) ? (c) Will it create a positive barrier to contain the long flourishing and deep rooted parallel black economy ? and (d) Will it facilitate the working of the New Economic Policy, openness of the economy and the macro-Economic management frame work of the country ? There may arise so many operational difficulties and the above difficulties are of strategic importance which need to be examined to draw some conclusions for our future policy frame.

The government or most probably the Reserve Bank on its behalf will undertake the management of foreign exchange as per the system of full convertibility. As per the system, there shall be only one rate at which the foreign exchange and gold are to be converted into rupee. In other words the convertibility of rupee will be made fully at the market rate determined by the supply and demand forces. Most probably, there shall be a flexible exchange rate at which the foreign exchange would be converted into rupee and the forces of demand and supply will play a dominant role in determining the exchange rate. One possible implication of full convertibility in this respect may be that the flow of foreign investment in our country will be more. The inward remittance of foreign exchange will be beneficial both for the government and individuals as well.

The proposal of full convertibility must have far reaching implications for India's BOP Management in future. On the basis of the empirical evidence in support of the increasing foreign exchange reserves of the country consequent upon the implementation of partial convertibility and other measures, we can expect that full convertibility would have a positive impact on the BOP Management. The data on foreign exchange reveal that the reserves have shown an increasing trend. So we can conclude that full convertibility would bring in more inflow of resources and it would be easier to narrow down the balance of payments deficits. Under the system of partial convertibility two rates of foreign exchange were prevailing - the official rate and the private rate determined by the supply and demand forces. There was a sizeable difference

between the two - the private rate being higher than the official rate. Now under the system of full convertibility, one rate will prevail and this rate will be determined by demand and supply. So, there will be more transactions in the white market and the net work of the long cherished Havala transactions will decline. So the foreign exchange transacted through illegal means will now be made on legal lines and the country can be in a comfortable position in the matters of import payments. The increasing trade gap will now be reduced to the tolerable limit.

The implications of full-convertibility in the context of structural adjustment is debatable. It is reasonable because the programme of full convertibility will mean the incorporation of both structural adjustment and stabilisation programme. But the combination of structural adjustment and stabilisation is very difficult to attempt at the same time. Sometimes, the stabilisation programme results in stagflation in some sectors whereas a reduction in expenditure leads to recession. Similarly, the cut in subsidies and step up of administered prices of essential goods cause inflation. Thus, the implications of full-convertibility will depend upon its implementation as per the specific purpose instead of its overall general objectives.

The introduction of partial convertibility and liberal gold import policy have reduced the margin between the remittances through normal banking channels and Havala transactions. Thus, partial convertibility has given a serious setback to havala trade and created a substantial dent upon the growth of parallel economy. Basing upon the contribution of partial convertibility, we can anticipate a better future of full convertibility in this front.

Its implication in the context of parallel economy and generation of black money is again doubtful. The full convertibility of rupee as per market rate is likely to be prone into market imperfections. The abolition of dual exchange rate does not necessarily mean that it will altogether abolish the Havala transactions in future. The Havala operators' long hand may interfere to manipulate the supply-demand position in order to derive additional profit. The foreign exchange market should be made free from the inflationary spirals for this will pay more price to the people transacting foreign exchange but may make the Indian rupee more debased. The government machinery should be alert to watch the implication of full convertibility in the coming months.

However, full convertibility will definitely reduce the growth of parallel black economy in future.

The Finance Minister in his budget, 1993-94 claimed emphatically that the proposal of full convertibility will serve as a very powerful instrument of Macro-economic management of the country. The NEP of the government will find a positive boost through the measures of full-convertibility. The openness of the Indian economy, import liberalisation for export promotion, technological upgradation of the export oriented units can also be influenced by the present measure of full convertibility. One of the most serious risks of import liberalisation is the increase in the trade gap in the current account transactions of the BOP. Now we can hope that the new system of exchange rate will provide a great deal of relief to the current account transactions and later on in other items of the BOP.

It the Budget proposals of 1992-93 and 1993-94 the Finance Minister has specifically assigned a strategic role to export promotion in harnessing the immense development potential of the country. But one thing which is worth noting is that export promotion measures have increased our exportables no doubt, but India's share in the total world exports is decreasing miserably to less than one per cent at present. This implies that our export promotion has not been adequately armed with technological upgradation at par with the world exports. Thus, we have to observe very carefully in the coming months as to what extent the flow of foreign exchange through full-convertibility will augment the flow of technology to our export promotion frame work.

#### Conclusion :

Full convertibility of rupee is a revolutionary step undertaken by the government and it will have far reaching implications for both BOP Management and macro-economic management of the country. Based on the experience of partial convertibility of rupee last year, it is expected that the present system of full convertibility will serve as a powerful instrument in reducing the network of parallel black economy to a considerable extent. But the existence of single exchange rate system based on demand and supply forces may lead to some market imperfections and instability. It is a difficult task to control completely the Hawala transactions and the growth of parallel black economy. However, the implementation of the system of full convertibility with timely market interference will prove successful in achieving a required exchange



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# Full Convertibility of Rupee :

## A Study of its Impact

Basudeb Sahoo

### I

With the introduction of the Budget 1993-94, the Finance Minister Dr. Manmohan Singh abolished dual exchange rate of rupee and announced full convertibility. The essence of full convertibility of rupee lies in complete absence of any exchange restriction, and freedom to purchase and sell rupee at prevailing market rate for trade-related payment, capital movement and speculative transfers.

Prior to this announcement there were two rates, official and market rates, market rate being determined by the Reserve Bank of India every day after watching changes in market supply and demand. Under this system which was known as the liberalised Exchange Rate Management System (LERMS), the exporters were to surrender 40 per cent of foreign exchange earned at official rate and the rest 60 per cent at market rate.

The dramatic bold step has created lot of hopes and fears in the minds of the economists and produced heated controversy.

India has a long history of full convertibility. Rupee was linked up with gold based pound from 1835 to the end of W. W. I. and there was no exchange restriction. Even in the interwar period, there was no restriction on conversion of rupee into sterling and other currencies. Exchange restriction was introduced in India after W. W. II and it was there ever since. Rupee was partially convertible in March 1992.

### II

As to the likely effect of this measure, there are diverse opinions. The supporters of the measure including the Finance Minister hope that full convertibility will give incentives to the exporters. Export is expected to rise by 15 to 16 per cent and profit to the exporters to rise by 5% in the current year.

The official rate of exchange was \$ 1 = Rs. 26 while the market rate was \$ 1 = Rs. 31 before full convertibility. Conversion of 40% of

foreign exchange earned at official rate was considered as a tax on export. Removal of this would give impetus to the exporters.

It is further hoped that conversion of foreign exchange at market rate which is likely to be higher than hitherto official rate would encourage inflow of foreign exchange.

It is also argued that sliding down of the value of rupee in terms of foreign currency, thanks to the impact of the market forces, would make the exporter conscious of quality and competitiveness of their products and this would be salubrious in the long rupee.

Those who oppose full convertibility of rupee put forth the following arguments :

Full convertibility is feared to result in lower value of rupee compared to market rates prevailing in Feb. 1993. Probability of rupee sliding down still lower is a problem. With the rupee sliding down the speculative operators would be active. The rich holders of liquid funds having close touch with the havalas dealers will take advantage of the situation. "The likelihood of the speculative transactions excluding trade based transactions can not be ruled out."<sup>1</sup> India has no adequate exchange reserve to balance the speculative operation. The hope of earning surplus in the balance of payments is a remote possibility.

Since our import is consistently greater than our export, appreciation of dollar in terms of rupee will impose greater burden on us. Further, since our country imports huge amount of petroleum and petroleum products and fertilisers, medicines and chemical drugs, the burden on our economy will be heavier. Increase in the price of imports due to depreciation of rupee would raise the domestic price level and reduce circulating capital of the importers. The doubt is substantiated by the fact that in 1992-93 export increased by 2.2% while import increased by 14.6%.<sup>2</sup>

The experience of the Latin American countries has been dismal. A Ghevli and Montiel (1991), have observed. "Unless private sector becomes convinced that the Government has incentives to resist repeated devaluations, an undesirably high level of domestic inflation may well emerge. A number of developing countries, particularly in Latin America, seems to have recently been caught in vicious circle of this kind..... In view of the above considerations, a relevant question is whether the recent pursuit of exchange rate flexibility in developing countries has gone too far."<sup>3</sup>



The Third world experience in following Fund-Bank prescribed structural adjustment programme of which convertibility of currency is a part has not been encouraging. *Paul Streeten, Helleiner, Horton and Eshag* studying the working of such programmes in Latin American countries point out that devaluation leading to price rise, monetary-fiscal restriction reducing public and private investment and raising unemployment have adversely affected the poor.

### III

#### Reality at Present :

The fear of rupee violently sliding down after full convertibility was announced has not come true. The exchange rate has hovered round Rs. 32 = \$ 1. (\$ 1 = Rs. 31.85, £ 1 = Rs. 48.75). But the apparent strength of rupee is more due to the behind-scenes activity of the R. B. I. than to the inherent strength of the currency : why the RBI is still trying to set the rates rather than allowing rupee to find its own level ? The RBI has moved the market towards a stronger rupee by quoting buying rates for the dollar that are lower than the inter-bank opening rate, "maintenance of a stable rate by a Central Bank would normally be possible only if it were in a position to buy and sell unlimited amounts at its dictated rates." For maintaining rupee stable, the RBI has to meet the market's demand for dollar at rates cheaper than what the market can offer. "But RBI's foreign exchange reserves can not permit it to even dream of such a luxury."<sup>4</sup> Substantial inflows from exporters and multinationals and low demand of the P.S.E. have enabled RBI to intervene in the market at present.

There have been continuous depreciations of rupee even under managed floating. Rupee was tied to sterling within a margin of 1 per cent till Sept. 1975, and then it was pegged to an average value of 5 major currencies from Sept. 1975 and was allowed to move within 2.5 per cent and since 1978 it was allowed to move within 5 per cent. The effective change in value of rupee in the period 1965 to 1975 was 49.4 per cent in relation to dollar. Effective change in rupee value against the average of five major currencies in the period 1975 to 1986 was 37.65 per cent. In the period 1980 to 1987, rupee depreciated by 47.8 per cent against dollar and 58% against yen<sup>5</sup>. From 1985-86 to 1990-91 rupee was further depreciated by 6.5% annually in relation to dollar. In 1991, rupee was devalued by 20 per cent.

Even dollar, a strong currency fluctuated by 40 per cent in the eighties. Mr. Bergsen, the Director of Institute of International Economy, admits that the system of unmanaged flexibility from 1973 to 1987, failed to have constructive impact on national economic policies (E. T. Sept. 8, 1988). Three major criticisms have been levelled against the floating exchange rate system, such as (i) high short term volatility (ii) large & persistent misalignment of exchange rates and (iii) lack of disciplined coordination in the conduct of macro-economic policies in major industrial countries epitomising ineffectiveness of IMF surveillance.

Free float of rupee and its full convertibility which have been undertaken at the dictat of IMF-World Bank combine may result in large fluctuation of the value of rupee in view of the weak competitive power of the Indian exports against recession in the world market.

I. M. F. in its paper No. 81 in 1990 laid down four conditions for convertibility of a currency. They are : (a) an appropriate exchange rate, (b) adequate international liquidity, (c) sound macro-economic policies and (d) an environment in which economic agents have incentive and ability to respond to market prices.

India's foreign exchange reserve, now at \$5.6 billion, can cover only 15 weeks import liabilities. The Commercial Banks' short-term foreign exchange liabilities would be about three times foreign exchange reserve. Any disturbance to the inflow of foreign exchange would create critical situation in the balance of payments as in 1991. Our international liquidity is not large enough to permit smooth functioning of full convertibility. Though price level has come down, deficit on revenue account is still large (Rs. 1700 crore) and critical shortage, unemployment rigidity and imbalance characterise our economy. Sound macro-economic policies have not yet crystalised. With 43 per cent of people below poverty line, the capacity of the economic agents to respond to market prices is limited. One would therefore feel sceptical about the effect of full convertibility rate. It appears unwise to permit full convertibility of rupee before the economy attains a higher level of production, adequate employment and a resilient pattern of export production.<sup>6</sup>

Export increased by about 3.4% in 1992-93 while import increased by about 15%. The huge accumulation of reserve is due to slow growth of import due to recession and exceptional financing made up entirely of borrowing from multilateral financial institutions and



bilateral donors (\$ 2.5 billion for 1992-93). External debt has increased by \$ 10 billion during 1991-92 and 1992-93. By the end of 1991-92 external debt was more than 27 percent of GDP. Stabilisation attributable to borrowing may not be sustainable in the long run. Full convertibility of rupee has not helped the cause of stabilisation since the market is bound to speculate about further depreciation. The medium term loans from IMF & NRI where repayment would commence soon and the accumulation of external debt to buy time could unleash destabilising expectations whenever there is any crisis of confidence."

The annual rates of inflation, on an average of period basis were (i) 7.5%, 10.3%, 13.7%, and 11.5% respectively in terms of wholesale price index in 1989-90, 1990-91, 1991-92, 1992-93 and (ii) 6.6%, 11.2%, 13.2% in terms of consumers price index for industrial workers and (iii) 5.4%, 7.6%, 14.3% and 17.4% respectively in the last 4 years, in terms of the consumer price index for agricultural labourers. It may be noted that the decline in price level is largely attributable to the good monsoon and its impact on the prices of agricultural commodities.

The liquidity overhang and the parallel economy are beyond the reach of discipline. Increase in money supply defined as  $M_3$  was 18.5% in 1991-92 and is estimated to be 15% in 1992-93. Hence, it cannot be asserted that inflation has been checked.

In short, the state of the Indian economy has not been congenial for full convertibility even in terms of IMF assumptions. A serious fault lies in the Government adopting simultaneously both stabilisation and adjustment measures. Such approach results in stagnation and poverty. It may be necessary to rely more on market forces at micro level, yet state intervention can not be dispensed with at the market level for the market is a good servant but a bad master. Full convertibility of rupee portends this danger.

#### IV

Full convertibility is connected with free float. The experience of the industrialised countries in regard to free float has not been a happy one. The volatility of real effective exchange rate of these countries was 0.38 per cent per annum in 1961-70, it rose to 1.22 per cent per annum in 1974-83 (3 fold). Misalignments in the sense of divergence from national equilibrium rate takes place and lead to misallocation of resources. In light of these, I. S. Gulati observes that floating



system can not claim to have succeeded in improving the operation of the adjustment process, nor can it be said to have helped solve the international liquidity problem.

It is admitted by the economists, that if price elasticity of demand and supply for export-import is low and if supply of export is price inelastic, equilibrium in foreign exchange market is unstable. Then floating exchange rate will generate perverse movements in exchange rate and automatic adjustment will fail to cure balance of payments disequilibrium. All these imply that absence of intervention in exchange rate determination (as reflected in full convertibility) does not conduce an economy like India having the above characteristics. It is an illusion that floating rate provides an escape route. A satisfactory exchange rate system will arise if macro-economic policies of major countries are stable, mutually consistent and conducive to the satisfactory performance of the world economy. Refloat of rupee in the quest for globalisation of the Indian economy in the present circumstances may spell disaster.<sup>8</sup>

The goals of export promotion and import demotion and attracting funds ought to be pursued through measures strengthening domestic economic performance consistent with the overriding goal of improving the lot of the common man.

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## From Crisis to Convertibility

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The beginning of the decade of the nineties has been associated with great difficulties for the Indian economy. These difficulties are mainly due to problems in our balance of payments and growing foreign indebtedness. So it was necessary to move towards a situation when the balance of payments becomes sustainable on an enduring basis. The Eighth Plan document has observed that during the next five years the sustainable level of current account deficit will be 1.4 percent of the G.D.P. It has been estimated that this order of current account deficit would require exports to grow at 13.6 percent per annum. In reality, the exports must rise at a much faster rate to tide over the present predicaments.

### **Overhauling the Exchange Management System :**

For a rapid expansion of exports, the Government announced a package of trade policy reforms on July 4, 1991 and a comprehensive trade policy on 13th Aug. 1991. But it was felt that to boost up the export trade it was imperative to overhaul the exchange rate system. In fact, since 1991, the country has witnessed considerable reorientation in exchange management and control.

As a first step the rupee was devalued in two stages on July 1 and July 3, 1991. The rupee dollar rate was fixed at about Rs. 26 a dollar. As another step in exchange reform, Exim scrip was introduced in August 1991. To provide an incentive to the exporters, the entitlement ratio for them was fixed at a level of 30 percent. The Scheme replaced a complicated system of incentives including a system of REP Licenses which were given to exporters at different rates for different commodities. The new Exim Scrip Scheme had a number of merits and it operated well. But there were demands to expand the coverage of the scheme and to correct inadequacies and drawbacks in its operation.

Then from March 1, 1992 partial convertibility of the rupee was introduced in the form of Liberalised Exchange Rate Management System (LERMS). Under this system, all foreign exchange receipts on current account transactions were required to be surrendered to the authorised dealers in full. The rate of exchange for these transactions

would be the free market rate quoted by the dealers except for the 40 percent of the proceeds which would be based on the RBI official rate. The dealers in turn would surrender to the RBI 40 percent of their purchase of foreign currencies at the official rate of exchange. They were however free to retain the balance of 60 percent of foreign exchange for being sold in the free market for permissible transactions. Thus under partial convertibility a dual exchange rate system was introduced.

Initially the programme was to have full convertibility within 3 years. However when the budget for 1993-94 was presented on 27th Feb 93, the Finance Minister suddenly announced the free convertibility of the rupee. The rupee was allowed to float and its price was to be determined by market demand and supply. The dual rate structure was abolished.

#### **What is a convertible currency :**

During the last two years there has been a lot of misconception about the implications of currency convertibility, not only among the laymen but also among economists and financial journalists.

A 'controlled' currency is one which cannot be converted into foreign currencies without prior authorisation, because of exchange controls imposed by the Government. A convertible currency is one which can be converted into foreign currencies freely and can be used without any limitation for payment of goods and services, including travel. As a financial concept, convertibility simply means the ability of the residents and non-residents to exchange domestic currency for foreign currency, without limit at market rates. In the ultimate analysis there must be liberalisation of trade, so that there is both financial and "commodity convertibility."

Thus "full" convertibility is on both trade or current account as well as capital account. Actually it should imply free movement of capital. In the Western development countries 90 percent of the total foreign exchange transactions is accounted for by short term speculative capital movements. Such capital movements take place on the basis of inflation and interest rate differentials between different countries

#### **The Indian Version:**

The Indian version of convertibility is very different from what is prevalent in the western countries. In the Indian context full convertibility is only on trade account. That means foreign exchange



transactions are permissible only with regards to exports and imports of goods and services. The rupee will not be convertible either on capital account or for the purposes of speculative capital flows or for travel purposes. It is thus more akin to the Brettonwoods Scheme of convertibility, which excludes capital account transaction.

Even on trade account we do not yet have full convertibility, since there are a large number of exchange control laws still in force. Dr. Manmohan Singh therefore has remarked "if the economy responds well and if the foreign exchange situation becomes stable the exchange controls on the current account can be lifted in the next 12 to 18 months, making the rupee "effectively convertible" on the current account. Today a modification of the 40 : 60 LERMS formula to a 0 : 100 one is being termed as rupee convertibility.

#### **A Case for Convertibility :**

On the eve of the budget, opinion on the issue was sharply divided. The industrialists and businessmen supported the view. Economists on the otherhand sounded a note of caution. Prof. A. M. Khusro however was highly optimistic and felt that rupee could be made fully convertible in the Budget of 1993-94. He held that India could go for full convertibility on capital account once the world goes out of recessionary trends and India builds up adequate foreign exchange reserves, achieves satisfactory export growth, brings about technological upgradation and contains inflation at a reasonable level.

Some of the arguments in favour of currency convertibility are the following :—

According to a study of structural reforms in 30 countries done by the U.S. Chamber of Commerces Centre for International Private Enterprise, currency reform plays a crucial role in structural adjustment. It says, "currency readjustment, liberalisation of the trade environment and an opening up of foreign investment are cornerstones of structural reform". The present exchange rate reform is a part of the overall liberalisation cum globalisation policy adopted by the Government. It is a signal to international investors that reforms are irreversible.

The I. M. F. and the World Bank favour full convertibility for India so as to boost up exports. Under the dual exchange rate system the exporters could exchange only 60 per cent of their foreign exchange earnings at the prevailing market rate. The rest 40 per cent were to be

sold at the official rate of exchange which is lower than the market rate. This arrangement in reality tantamounts to a hidden tax of 8 to 10 per cent on all export earnings. This had a negative impact on the exporters who had to affectively pay a tax. Under full convertibility, realisation of true rupee value of the exports will prove a good incentive and convertibility would help the competitive edge of Indian exports. The resultant devaluation would increase the exports of all product categories

Uniform foreign exchange rate is also essential to counter the adverse effect of appreciation of the rupee on exports. In fact, by Dec. 1992, the rupee started appreciating against major currencies, damaging the profitability of particularly the pound denominated and mark denominated exports. Some apprehended that India was in danger of catching what economists call "Dutch Disease". The Dutch Disease, which many countries experience is that following liberalisation capital inflows begin and the local currency starts appreciating. This affects exports, the current account deficit starts increasing and the country falls deeper into a debt trap.

Another purpose behind floating the rupee is to make for easier inflow of foreign exchange, through exports, direct foreign investment, foreign institutional investments and remittances from Indians working abroad. Thereby a dent can be made on the country's external debt of \$ 75 billion. The foreign debt service ratio to the GDP has touched almost 30 percent. For the current year the debt service obligations are expected to be as high as \$ 8.9 billion. India's increasing debt had resulted from continuing current account deficit as a consequence of poor export performance. Returns on investment also have been poor making repayment further difficult.

Full convertibility of the rupee would reassure foreign investors and stop the capital flight. It was expected to increase the confidence of the international capital markets, thereby helping inflow of foreign capital.

The large number of Indian workers who have been remitting money would immediately gain, since they would be eligible for market rates. It would discourage "havala" transactions. It will reduce the incentive for illegal transactions in foreign exchange.

Full convertibility may also serve as an indicator of industrial health. According to Bhupinder K. Modi, President of Modi Xerox,

"unless Indian manufacturers improve productivity, quality and become more competitive, imports will take off in a big way, and the rupee will depreciate. So the rupee will reflect the performance of the economy and indeed be the main indicator of the health of the economy. The producers should look to the nature of demand in the Western countries and achieve that kind of quality. Besides, if the rupee depreciates imports will be more expensive. So import-intensive exporters and petroleum based industries would find their cost control and improve efficiency to remain competitive.

**Is convertibility an adventurous and hasty step :**

A major argument in favour of rupee convertibility is that it would enable the Indian exports to take off and zoom into the global skies. But convertibility alone will not make a miracle happen in the export front, which needs some fundamental overhauling. The real obstacles to rapid export growth are poor infrastructure, poor quality, not adhering to delivery schedule and high domestic demand. It is true, in 1978 China and India's exports were almost at par, but today China has reached \$ 72 billion compared with India's \$ 19 billion. Here we should not forget that India has launched her export drive during a world wide recession. The developed countries are tightening their belts and the world economic environment is rather unfriendly.

Export Performance might also depend on what would be the final rate of exchange. If the dollar will eventually settle for around Rs. 31-32, the benefit to exporters will be rather marginal. If the dollar strengthens to Rs. 33-35, there may be a large incentive for exporters but import intensive export industries such as gems and jewellery etc. will not be benefited. Our import cost also will significantly go up. Thus full convertibility may prove to be a "double edged sword."

Convertibility and concomitant free trade presume a vibrant economy. But if a country suffers from "commodity inconvertibility", currency convertibility can only create economic problems. Indian industry is plagued by poor quality of infrastructure and high capital output ratios.

Again, export incentives due to full convertibility will take effect only with a time lag. Hence in the short run there may not be any spectacular growth in exports, rather there could be an adverse effect on the trade balance in the short run. In fact, the export performance during the last two years has been below expectations. Export growth is not likely to be more than 4 per cent this year.



The flow of foreign direct investments also has not been too encouraging. Such investment can really increase through capital account convertibility. Besides foreign investors should be convinced of the safety and profitability of direct investment. The present political atmosphere in the country is not very congenial to boost the confidence of the foreign investors. Consequently 'FDI' into the country has been even less than what has gone to countries like Indonesia or Malaysia. After the initiation of the reforms programme in August, 1991 till March 1993, the actual inflows of FDI has been only \$ 334 million. In rupee terms, the FDI approvals till March 1993 are Rs. 6868.27 crores. Of these the actual inflows are Rs. 1001.9 crores with NR! investment approvals accounting for Rs. 385.12 crores.

S. K. Verghese has rather warned that due to rupee convertibility we have to reckon with the scope for capital outflows due to the indistinguishability of the current and capital accounts in practice, and it would be extremely difficult to track such outflows.

Verghese further points out that historically, European currencies became fully convertible only when their balance of payments position improved and the future prospects, including for macro-economic stability looked good. Currencies were not made convertible for improving the balance of payments, as was being done in India.

Another macro economic impact of a floating rupee could be inflation. Earlier bulk imports of petroleum products or fertilisers etc. or fertilisers etc. used to be paid for at the official rate of Rs. 26.32. Now these will have to be paid for at a much higher market price. As the Indian economy is not insulated from international price movement, domestic price of petrol is likely to go up with every rise in world price. Thus a possibility of "imported inflation" cannot be ruled out. Rising oil prices will move up the inflation rate forcing us to further devalue the rupee. This may create a situation of "inflation deflation spiral" of the Latin American style. If due to poor monsoons we are forced to import foodgrains and edible oils etc. at the prevailing market exchange rate, the price situation is likely to worsen.

Domestic prices of so called essential inputs were still being administered and controlled by Government. Some of them were also subsidised. After convertibility, these were expected to go up, leading to cost push inflation. Transfer of new technology and import of sophisticated capital goods will become expensive, adversely affecting the modernisation drive.

Besides, any increase in the rupee costs due to convertibility could increase the country's fiscal deficit, which the I. M. F. rigorously proposes to contain, of course the increase in prices of items like petroleum products or fertilisers etc. could be passed on to the consumers. But it would not be possible to avoid the rising cost of defence, which may enhance the fiscal deficit.

Some have argued that the LERMS introduced in March 1992 was working remarkably well in favour of the country's external trade. The rupee was fairly stable. In Dec. 92, the average value of the rupee against the dollar in unofficial trading remained in a band of Rs. 30 to Rs. 31 and the premium on the dollar over the official rate of the rupee was around 15 to 17 per cent.

What is the experience of other countries who went for currency convertibility?

The experience of the developing countries who went for a currency float bears testimony to the fact that exchange rates alone cannot improve the balance of payments position. Floating exchange rates may at best eliminate the price distortions in a country's international exchanges.

Russia had to make the rouble convertible at the behest of the I. M. F. as part of the liberalisation process. A few months before the rouble was made convertible, officially the dollar rate of exchange was put at 80. In less than four months after convertibility the rate was 400 roubles per dollar. Rouble convertibility is likely to have far reaching consequences for the Russian economy.

For the developing countries which have followed full convertibility the experience has not been an unmixed blessing. If on the one hand free floating has led to increased exports and foreign investment, the negative effects have been inflation, some unemployment and growing income disparities. Currency convertibility has been a failure in Africa but worked remarkably well in South East Asia and Latin America. Nearer at home countries like Pakistan and Nepal have made their currencies convertible.

#### **Conditions Necessary for the success of Convertibility of the Rupee :**

The present full convertibility of the rupee is a logical follow up of the partial convertibility introduced earlier. However, for its success certain conditions are necessary.

First, with a very low level of net export earnings it is doubtful if full convertibility would be desirable. Hence exports are of critical importance and must rise at more than 13 percent per annum. There must be concerted efforts to increase exports. Only a strong performance in the export front will provide stability to the exchange value of the rupee in the market.

Second, imports must be brought down, as import costs are likely to move up after full convertibility and other trade liberalisation measures. Major items of imports should be brought under control, otherwise imports of luxury goods are likely to go up, due to the presence of substantial black money in the hands of a section of the people, international demonstration effect and the unusual craze for foreign articles.

Third, India must generate enough hard currency to prop up the rupee. Foreign exchange balances must be comfortable. On Jan 5, 1993 the foreign exchange reserves amounted to \$ 5.3 billion. But the country must possess on a sustainable basis foreign exchange reserves equivalent to about 15 months requirement, say about \$ 20 billion.

Fourth, inflation must be effectively contained. Dr. S. L. Rao Director General of the N. C. A. E. R. had rightly suggested that full convertibility must wait for the decline in inflation to much more moderate levels and after low inflation rates continued for more than a full season.

Fifth, India should introduce fiscal and financial discipline at all levels.

#### Conclusion :

Full convertibility is a commendable step to integrate the Indian economy with the global market. But it is not a grand panacea for all the economic ills. It is not an end in itself but a means to an end. Hence India should build up the requisite technological infrastructure to produce the type and quality of goods demanded abroad. Second, India must create the confidence among the foreigners in the capacity and credibility of the economy. It also calls for the growth of a powerful and vibrant nationalism within the country. The success of currency convertibility depends on the efficiency with which economic reforms and structural adjustment are performed. R. K. Sheshadri, the former Deputy Governor of the R.B.I. has rightly commented that "we should try to ensure that with full convertibility the Indian rupee has stable and predictable value and that it is one of the world's respectable currencies, being traded actively in all the major spot, forward and futures markets "



## Full Convertibility of Rupee and its Impact on the Economy

B. K. Bose  
&  
Dipankar De

Central Budget 1993-94 will go down in the economic history of India as an outward looking Budget having refreshing approach in which a professional economist has played gamble with conviction in announcing full convertibility of rupee. Economists are not unaware that our policy of self-sufficiency accompanied by physical control, regulation, subsidisation in industrial and trade sphere not only failed but also has evolved a system characterised by inefficiency, high cost structure and low quality products making little dent on poverty and unemployment. During long history of 43 years since 1950, India's external trade balance has been in surplus only twice first in 1971-73 (Rs. 104 crore) and then in 1976-77 (Rs. 68 crore); otherwise there has been a long stretch of deficits, which for the past 13 years has been invariably more than Rs. 50.0 crore, with maximum deficit till 1991-92 being Rs. 10,640/- crore in 1990-91. A continuously high deficit in BOP was unsustainable which reached crisis proportions by July 1991 when we were close to default in international obligations together with erosion of confidence of short-term lenders and NRI depositors. Short-term measures were taken to avert the embarrassing situation, but the crisis gave an opportunity to adopt long term measures of structural reform aimed at improving efficiency and productivity in the economy. If controlled regime could not take of the aforesaid ills, assigning larger role to market mechanism will not be totally unfair. Against this backdrop, desirability of full convertibility of rupee, as one of the trade reform measures, may be considered.

### Meaning :

The rupee has not been made full convertible in economic sense of the term. All that has happened is that market forces will now determine the exchange rate of rupee for all transactions permitted under Foreign Exchange Regulation Act. The liberalised Exchange Rate Management System has given rise to the Unified Market determined Exchange Rate System. It is true that in the last two years, many import

restrictions have been removed and many exchange control restrictions have been eased but that is entirely different from removing exchange control and therefore import controls altogether. It is only then that the rupee will be fully convertible. The Macmillan Dictionary of International Finance says "If a currency can be bought or sold at will (i.e. without waiting for permission) in exchange for other currencies (a wider definition would add 'and for gold') it is said to be convertible". The key words are "bought and sold at will" which, in effect, spell out the freedom given to any citizen of a country to exchange any amount of his/her local currency for another for whatever purposes (of course, not for those that contravene the laws of the land, the narcotics trade for instance). According to the Finance Minister, "If the economy responds well and if the foreign exchange situation becomes stable, the exchange controls on the current account could be lifted in the next 12 to 18 months making the rupee effectively convertible on the current account." Capital account convertibility involves certain risks which can be taken up once rupee is made fully convertible in the current account.

#### **Scenario before Rupee Convertibility :**

There has been a continuous improvement in the Exchange Management during last three years. In 1991, the Finance Minister introduced Exim Scrips eliminating the budgetary subsidisation of exports. The Exim Scrip virtually meant higher exchange realisation for exports, burden of which was borne by the importers who required free foreign exchange. The budgetary support to exporters by way of export subsidy was, therefore, eliminated in line with the reform policy to stop subsidies and leave the situation to the market mechanism. The system was replaced in 1992-93 budget by the introduction of dual exchange rates under Liberalised Exchange Rate Management Scheme (LERMS) which required 40 per cent of export and current account earnings to be sold at the official rate, while 60 percent could fetch at higher market determined rate. All imports and outward remittances except fertilizer, crude oil and petroleum products, life saving drugs and defence equipment were to be financed at the market determined floating rate. Under this dual exchange rate mechanism, all essential imports were subsidised by the exporters the extent of 40% of their export earning. This amounted to taxing exporters indirectly since official rate was between 15% to 20% lower than the market rate.

#### **Present System :**

1993-94 budget has further liberalised the LERMS by introducing unified market determined exchange rate system under which all exporters

as well as other foreign exchange earners, such as our workers abroad, will henceforth be allowed to convert 100% of their earnings at the market rate. The modified LERMS envisaged four things, namely :

1. All foreign exchange transactions are put through by Authorised Dealers (AD) at market determined rates of exchange.
2. ADs are no more obliged to surrender any portion of their foreign exchange receipts to the RBI. They can thus retain their entire foreign exchange receipts.
3. ADs can sell foreign exchange only for permissible transactions and,
4. RBI will sell foreign exchange to ADs only for those purposes as are approved by the Govt. of India.

Under the modified scheme, RBI would buy only dollars, the designated intervention currency. It would not ordinarily buy Pound Sterling, Deutsche Mark or Japanese Yen from the dealers as it had hitherto, and dealers would no longer have any obligation to sell these currencies to the RBI. The Central Bank would no longer attempt to influence the price of rupee on a day-to-day basis by setting a base rate. Also the exchange rate of the rupee would no longer be measured in terms of a basket of currencies consisting of dollar, pound, mark, yen etc. but solely in relation to the dollar. Hereafter, trade in any other currency would be the exclusive preserve of the dealers.

#### **Impact of Rupee Convertibility :**

Before assessing impact of rupee convertibility it is necessary to touch upon the factors that expedited its introduction. The first one is, climbing down of fiscal deficit which was estimated to have come down from 8.4% of GDP in 1990-91 to 5.2% during 1992-93 and declining budget deficit during 1992-93 having favourable impact on general prices. The second one is reducing inflationary pressure in the economy - from a peak level of 16.7% in August 1991 to single digit 8% in March 1993.

#### **Favourable Impact :**

1. In the market determined exchange rate system, the rupee has found its own level, though depreciated in the beginning by 15% to 20% against dollar. The administered rate accompanied by numerous physical controls and periodical devaluation in the face of increasing



trade deficit, has been replaced by Market determined rate which will automatically determine the intrinsic value of rupee.

2. Exports have been made attractive proposition at one go by allowing 100% of the export earnings (hitherto 60% only) convertible at the market rate. Elements of gain which range up to 15% will provide cushion to the exporters while offering competitive price in gaining access to the world markets. Assuming 50% of products in India's total exports at present is price-elastic, price advantage offered to exporters by way of rupee convertibility will increase the volume of exports. Rupee convertibility alongwith other policy initiatives such as elimination of plethora of red tape by a liberal export-import policy, the tax exemption granted to profits from exports and lowering custom duties has enhanced profitability of exports and in some cases exports look more profitable than domestic sales. The shift from the export of traditional commodities to finished and value-added goods is increasingly discernible. Export basket which has undergone a sea-change to include commercial vehicles and cars, computer software, processed foods, television sets and consumer electronics will swell with rupee convertibility.

3. Convertibility led erosion in the value of rupee will discourage imports and may reduce demand for import assuming inflation will remain under control. Particularly, the country may now be forced to economise the consumption of crude and petroleum products, the import of which currently constitute about 28% of the country's total imports. Reduction in import duty may not lead to higher imports since this is more than off set by fall in the external value of rupee.

4. Rupee convertibility has dealt a severe blow to the havala market (the unofficial parallel market) through which inward remittances got converted because of higher rupee realisation and as a result the country was not getting the full benefit of foreign exchange inflow. The new dispensation which considerably reduces the gap between havala rate and market rate, will further encourage flow of foreign exchange into official channels. It is expected that liberalised exchange control regime including new gold import policy will reduce significantly havala transactions, the value of which is estimated at \$ 2 billion

#### **Adverse Impact :**

1. The immediate concern in the aftermath of rupee convertibility is its likely adverse impact on cost of import of crude and petroleum products and fertilizers which were hitherto imported at official rate.

The country has to cough off about Rs. 3,600 crore more on account of oil import only. The situation may become worse if international price of crude hardens. However, it is estimated that on this account, likely impact on general prices may not be more than 2%. Besides, high prices of petroleum products may have beneficial effect in that it may create an environment where it will promote conservation of the scarce commodity and compel the nation to focus attention on new and renewable sources of energy.

2. It is apprehended that full convertibility, which in effect has devalued rupee, instead of giving a boost to exports will make imports more costly, make the country's balance of payment position further troublesome and reduce the country's creditworthiness as was witnessed in the first half of 1991. The apprehension has arisen from the doubts cast on satiability of the preconditions for success of the devaluation. Firstly, country should have enough production facilities aimed at world markets. Secondly, international acceptability of our products demands adherence to norms namely price and quality competitiveness, delivery schedule and after sale services. Thirdly, inflation should remain under control. Fourthly, world trade remains free focussing multilateralism rather than bilateralism and block building.

While all these factors are unfavourable to India in different degrees, the country has greatest advantage in having a marginal share of 0.5% in world trade. The current structural reform programmes which engulfs all the sectors of the economy—particular mention may be made of industrial, trade, fiscal and financial sector—are expected to yield desired result and improve our export performance. Besides, product specific and country specific approach the underway to overcome general hurdles experienced in finding markets abroad.

#### **Conclusion :**

Economic theory has taught us that devaluation is not a panacea for dismal performance in the trade sector. Failure of devaluation undertaken by India in 1966 is not far from our memory.

Economists are not unaware that foreign investment, NRI inflows and more loans cannot substitute for hard dollar earnings through successful trade. They are also not unaware that false notion of self reliance has cost the nation dearly for decades and has only led to inefficiency, high cost structure, and painful compromises on quality. If rupee convertibility is thought to have come too early, and before

strengthening industrial base conducive to export, we never for that matter followed logical steps in the past when agricultural reforms took a backseat in the early stages of economic development. While the objective is not certainly to repeat the mistake, the country should not miss the opportunity and is marginalised as the world level by not perceiving the rapid technological development taking place even in its own continent. Lack of coherent and farsighted measures is likely to inflict humiliation and misery on the world's second largest populous country which is the tenth industrialised country having a third largest pool of technical manpower in the world. The free float of Indian currency is to be viewed in the context of structural reforms currently implemented in the country which includes both short term and long term measures. The fear that poor will become poorer as a result of new policy measures, of course, has to be removed by directing Govt.'s attention and budgetary resources in, increasing measure, towards development in social sectors like health, education, nutrition, drinking water etc.



## The Impact of Full Convertibility of Rupee on Some Leading Sector of Indian Economy

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The concept of full convertibility of rupee has been a burning problem in the Indian economic scene, ever since the presentation of budget for 1993-94 by the Union Finance Minister on 27th, February, 1993. There has been introduction of a unified exchange rate mechanism that has enabled all exporters and other foreign exchange earners, such as workers abroad, to convert 100% of their earnings at the market rate. Simultaneously, all imports will have to be paid for at the market rate which, in effect, will usher in what is popularly known as full convertibility of the rupee on the current account. In this sense the present budget can be considered as a landmark budget since it aims at bringing revolutionary changes in the foreign trade sector of the Indian economy. However there has been mixed reactions by the economists, politicians and statesmen on this leading issue.

### Historical Review of Full Convertibility :

The budget for 1992-93 had introduced partial convertibility of the rupee on the current account under which foreign exchange earners could convert 60% of their earnings at the market rate and the rest at the official rate. This had resulted in the dual rate of exchange for current account transactions. The I. M. F. has always taken the view that the Indian economy is ripe enough for the rupee to be made convertible without delay. But it has never insisted on it being a condition for sanctioning fresh loans. Article VIII of the IMF stipulates that the Fund would ensure that its member countries avoid following a dual exchange rate regime. Hence India's letter of intent of 2nd June, 1992 for the ongoing standby programme aimed at seeking an exemption from this article. In fact this exemption had been granted.

On the question of full convertibility of the rupee on the current account the Finance Minister had been maintaining

that he could not afford to take the plunge unless inflation is under control and fiscal situation improves. While the annual rate of inflation had been reduced below 7% and the fiscal situation was under effective control, it was deemed as the appropriate Opportunity to announce the decision of full convertibility of rupee in the current budget.

#### **The Issue of Full Convertibility of Rupee in Relation to Foreign Trade Sector:**

Full convertibility of rupee on the current account will mean that there will be only one exchange rate for current account transactions including trade. It will bring about significant benefit on the part of the exporters. Exporters will be able to convert 100% of their dollar earnings at the single market rate, instead of at less favourable dual rate of exchange. In their memoranda, exporters have demanded full convertibility of rupee earlier. This decision can be considered as a major incentive for the exporters. But the convertibility of rupee will have no implication for free import or free travel allowances, which would continue to remain under usual restrictions. The other broad approach in this connection is the fiscal deficit level to be aimed at during 1993-94. Against the target of 5% of gross domestic product (G.D.P.) in 1992-93, the Finance Minister has planned for a fiscal deficit of 4% of G.D.P. in the current financial year. This will imply further curtailment of expenditure, unless more revenue can be generated through the measures of taxation. The specific extent of expenditure cut which a target of 4% fiscal deficit of G.D.P. will entail will obviously depend on the projected rate of inflation and the growth prospects during the current financial year. In this context it is worth mentioning that the full convertibility of rupee will give a fillip to the rate of growth in the foreign trade sector in general and the export promotion sector in particular.

The government is also hopeful that export profitability will increase by 5 to 6 per cent as a result of the unified exchange rate system. Exports growth in dollar terms, too, is expected to be around 15-16 percent during 1993-94. The extra margin in the export sector to the extent of 5-6 per cent after the unified exchange rate will be of great help to exporting firms. The export growth rate was about 14% upto December, 1992 and this has slowed down following post Ayodhya developments. The government has the expectation that the damage caused in December and January will be compensated in the ensuing months leading to the overall growth rate in the export sector to the tune of 15-16 per cent in the current year.



It is indicated that the fears of a sharp depreciation in the value of the rupee after the unification of exchange rate were exaggerated. Barring a week of pre budget nervousness, the rupee has behaved strongly during the whole of the last financial year. In fact, the Reserve Bank of India had to intervene in the market, not to support the rupee, but to prevent the Indian currency getting stronger vis-a-vis the dollar. It is expected that the unification of exchange rate would result in the rupee stabilising at somewhere between the current market rate and official rate of exchange. There is absolutely no fear of any sharp depreciation in the market rate of rupee.

**Full convertibility of rupee  
in relation to defence and petro units :**

It is feared that defence, petroleum, food and fertiliser imports will be particularly affected if the exchange rate turns unfavourable for the Indian rupee. Now all the foreign requirements for these bulk imports will have to be purchased from the unified market and the costs are likely to go up. The introduction of full convertibility would adversely affect the defence sector, which was provided a meagre outlay of Rs. 19,180 crores for 1993-94. In effect, this outlay, which represents an increase of 9.6 per cent over the current year, would not be able to absorb the increased expenditure on import of spares and equipment from major European countries following the introduction of unified exchange rate regime. The three forces have to work under severe hardship and constraint because of reduced import flow of vital spares and equipments required in the capital intensive Indian Air Force and Navy.

The Government outlay for 1993-94 should have been fixed in accordance with unified exchange rate regime. The full convertibility of rupee means a burden of Rs. 2,500 crores on the oil pool account during the full year. This view is, of course based on the following assumptions (a) The average international price of crude oil is \$ 18.5 a barrel, (b) The consumption of petroleum product is 63 million tonnes and (c) The exchange rate is Rs. 31 for a dollar. The account would have generated a surplus of Rs. 1000 crores with major portion of oil imports proposed to be financed by providing dollar at the official rate of Rs. 26. This implies, if all other conditions remain unchanged, the net pool deficit during 1993-94 would go up to the tune of Rs. 1500 crores. The petroleum ministry is ruling out an increase in prices of products immediately to offset the burden, since the international prices of crude oil is currently pegged at \$ 16 a barrel. There may be a price rise in near future when the



prices in the international market are likely to go up. The domestic prices may have to go up even if the rupee falls below Rs. 31 to a dollar.

According to the sources in Indian Oil Corporation (IOC), the country needs about \$ 6 billion to finance oil imports so as to adequately feed the refineries and meet the domestic demand. A sum of \$ 5.1 billion was provided by the finance ministry at an official exchange rate of Rs. 26 and the balance \$ 900 million was to be procured from the open market. It was estimated that the oil pool account would have earned a surplus of Rs. 1000 crores in full year with such finances made available to it for oil imports and the international prices of crude oil averaging at \$ 19 a barrel. With the rupee becoming fully convertible, the petroleum industry would have to purchase even the \$ 5.1 billion, which was earlier given at the official rate, from the market which may be Rs. 4 to 5 a dollar dearer. This would obviously mean that a burden of around Rs. 2500 crore which would partially set off with a surplus of Rs. 1000 crore expected earlier. Similarly import costs of food grains and fertilisers will rise to the extent that the single floating exchange rate is higher than the official exchange rate.

#### **Summary and Conclusion :**

The full convertibility of rupee was not an easy decision to be undertaken. The open capital account, in fact, needs reduced fiscal deficit. The use of capital controls by most countries has often been justified on the basis of several grounds. In the first place it would help to manage balance of payment crisis or unstable exchange rates generated by excessively volatile, short run capital flows. Secondly it is to be ensured that the domestic savings of developing countries are used to finance domestic investment rather than the acquisition of foreign assets. The foreign ownership of domestic factors of production should be avoided. Thirdly it would strengthen the ability of the government to tax financial activities, income and wealth. Finally it would prevent capital flows from destabilising efforts to stabilise and sustain structural reform programmes. Recent studies have revealed that capital controls were typically most effective when they were combined with exchange and trade controls to restrict both current and capital account convertibility. In both industrial and developing countries, however, the introduction of current account convertibility created a variety of channels for disguised capital flows. When there are large incentives to move funds across borders these channels could generate large scale capital flows.

Indeed, in order to establish credibility that the reform programme and capital account convertibility will be sustained, it may be necessary to initially undertake a more substantial fiscal reform than would ultimately be needed for price stability and sustained growth. In view of this, our Finance Minister pointed out that a four per cent decrease in fiscal deficit from 8.4 per cent in 1990-91 and 4.5 per cent projected for 1993-94 had enabled the government to transform the economy from an empty coffers' situation to one where the plan outlay could be stepped by 32 per cent despite giving away Rs. 4,522 crore of duty relief. Dr. Manmohan Singh, the Finance Minister of India has further assured that the facility of 100 percent conversion of foreign exchange earnings at the market rate could be extended to other current account transactions in due course of time after the new system is stabilised.

The programme (with IMF-World Bank Partnership) covers a wide spectrum of policies including fiscal, industrial policy, trade policy, public sector, financial sector and labour policy. Liberalisation and globalisation were the main themes to make the economy more efficient and competitive and integrated with world economy. It is well recognised by the policy makers that adjustment programme is not going to be a painless process. The government therefore has been following a counter-cyclical fiscal and monetary policy to ensure macro-economic balance. As such, policy has been given to achieve unemployment and this has been a major focus of policy in the past two years. Short term of stabilisation was accompanied with structural reforms aimed at reviving the growth momentum of the economy of course keeping in mind the changing world environment.

One and half year of stabilisation has resulted in restoring the economy and bringing about a significant amount of fiscal discipline. Inflation did not get out of control, the large fiscal deficit amounting to 8.4% of the GDP in 1990-91 was the major culprit in increasing inflation and putting pressure on balance of payments.

The programme of fiscal correction which is a element of the short term stabilisation has reduced fiscal deficit to 7% of GDP in 1992-93. A further reduction to 4.5% is planned in 1993-94. This has dampened inflationary pressure and the rate of inflation is down to around 7% in March 1993. However, the development on Foreign Trade Fund has not been maintained until recently as the reduction of costs on imports and liberalisation of partial convertibility of the Rupee from March 1993 resulted in a sharp increase in imports in dollars as well as rupees. It is the intention of this paper to examine all the policy

## Rethinking The Full Convertibility Paradigm

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### Introduction :

Since July 1991, the Government of India has embarked upon a major programme of macro-economic stabilization and structural adjustment. The programme (with IMF—World Bank Prescriptions) has covered a wide spectrum of policies including fiscal, industrial policy, trade policy, public enterprises, financial sectors and labour policy. Liberalization and globalisation were the main slogans to make the economy more efficient and competitive and integrated with world economy. It is well recognized by the policy makers that adjustment programme is not going to be a painless process. The government therefore has been following a contractionary fiscal and monetary policy to restore macro-economic balance. As such priority has been given on crisis management and this has been a major focus of policy in the past two years. Short term of stabilization was accompanied with structural reforms aimed at reviving the growth momentum of the economy of course keeping in mind the changing world environment.

One and half year of stabilization has resulted in squeezing the economy and bringing about a significant amount of fiscal discipline. Inflation did not get out of control, the large fiscal deficit amounting to 8.4% of the GDP in 1990-91 was the major culprit in increasing inflation and putting pressure on balance on payment.

The programme of fiscal correction which is a element of the short term stabilization has reduced fiscal deficit to 5% of GDP in 1992-93. A further reduction to 4.6% is planned in 1993-94. This has dampened inflationary pressure and the rate of inflation is down to around 7% in march, 1993. However, the development on Foreign Trade Fund has not been encouraging until recently as the relaxation of curbs on imports and introduction of partial convertibility of the Rupee from March 02, 1992 resulted in a sharp increase in imports in dollar as well as rupee terms. It is not the intention of this paper to evaluate all the policy



changes mentioned above. The scope of the present paper is confined to one specific policy change which creates unnecessary misconceptions.

### **Rationale of Full Convertibility :**

Ever since the rupee was made partially convertible under Liberalised Exchange Rate Management System in 1992 there has been considerable debate over the pros and cons of full convertibility. Full convertibility in the Indian context is being contemplated only on Trade Account. Foreign exchange transaction will be permitted only in connection with import & exports of goods and services. The rupee will not be convertible either on capital account or for the purpose of speculative hot money flows. The 1993-94 budget has allayed apprehensions that the rupee would be made convertible on the trade account as quid pro to the IMF for not limiting fiscal deficit to 3.5% of GDP. A genuine desire to globalise seems to have promoted the decision to float the rupee. This becomes more evident from the export promotion package in the budget. But the government economists claim that devalued rupee will make Indian exports competitive, propelling them up by 15% and imports will become dearer. The government is predicting that in the medium term the trade deficit will be no more than 2% of GDP.

The major advantages of a full convertible rupee on trade account will be the avoidance of the implicit tax which the present system imposes on the exporters. Under LERMS exporters are allowed to exchange only 60% of their foreign exchange earnings at the prevailing market rate. The rest 40% has to be sold to the Government at the official rate of exchange, which is lower than market rate. At the prevailing rate of exchange, this arrangement leads in to a tax of 8% on all export realisations. The Official rationalisation for appropriating 40% of all export earnings at less than the market rate is that the hard currency thus acquired is used for imports of Petroleum and defence products. Thus a switch to full convertibility on trade account will mean exporters will be able to get a 8% higher realisation on their sales proceeds. It goes without saying that this is a good incentive towards increasing the volume of exports. As a result of liberalization exports have registered impressive growth in hard currency areas. Another potential export possibility is border trade with China and member of South Asian Association for Regional Co-operation. To all intents and purposes full convertibility on trade account, will make a remarkable difference in India's export performance. The effect on prices of Petroleum products and defence imports will be negligible. According to

the interim report of the Rangarajan Committee there are three preconditions to make the rupee fully convertible on current account.

1. There should be a comfortable level of foreign exchange reserve to withstand any sharp fluctuation in the exchange rate after the rupee is made convertible. This condition is fulfilled and the foreign exchange reserve including gold is now about Rs. 28,000 crores.
2. The rate of inflation should be low enough to guard against any sharp increase in prices after convertibility due to depreciation of the rupee against international currencies. According to the Government's claim in recent months the annual rate of inflation—official wholesale price index has declined below 7%.
3. There should be a mechanism through which the Government can pass on the changes the prices of imported goods to consumers.

There are some positive signals from the government like raising the price of petroleum products, decontrol of phosphetic and pottassic fertilizers prices etc.

But there is a knowledgeable group which is against further change in the present dual exchange rate. Prabirjit Sarkar has made a regression analysis between the annual rate of exchange rate changes and the rate of changes in values and volume of exports and imports over the period 1971-89/90. In no case a statistically significant relationship has been found. That means it cannot be said that higher the annual rate of rupee depreciation, the higher is the rate of growth in the values and volumes of India's imports. Subsidization of exports render various forms including REP licences and exim scrips, unnecessary and imports have been increasingly liberalised. At this stage, a fully convertible rupee will lead to a substantial depreciation of the rupee. In this study Sarkar finds that the exchange rate depreciation since 1971 did not accelerate the growth in the dollar value of India's exports nor did it lead to a deceleration in the dollar value of imports. In the face of withdrawal of most of the export promotional measures and increasing liberalization of imports in the present regime, there is not much bright prospect for India's export expansion and import compression under LERM.

Devaluation of a currency of a less developed country may increase the export volume by reducing the dollar price of export goods but due to the problem of inelastic demand the value of exports may fall.



Devaluation of one country may generate a spiral of competitive devaluation by other producing and exporting similar kind of products. This may result in over supplies of the commodities in the international markets and price crashes. As per the IMF's structural adjustment programme in 1975, Zaire, Zambia, Chile and Peru approached IMF for help in the face of their balance of payment crisis and these countries devalued and expanded copper exports under country by country approach. As a result there was a sharp fall in the price of copper in the international market. Consequently these countries were plunged into more debt (Dell, 1982).

Devaluation may not reduce the export prices in dollar, rather may result in an inflationary spiral wages chasing prices and prices chasing wages, rise in budgetary burden of debt servicing.

Even if the dollar prices of exports fall and demand rises due to devaluation, export supply may not rise, particularly in the short or medium term due to different structural reasons such as power shortage, transport constraints and inelastic supply of some specific imports.

The protectionist policy of the developed countries are increasingly discriminating against export of LDC. That is, just through devaluation it may not be possible to penetrate the market of developed countries. Increasing imports of luxury goods and imports machine to produce these goods can not be checked. Devaluation-led inflation creates a situation where imports may not be much costlier than domestic goods. There is serious doubt on the achievements of the regime of LERMS and import liberalization to cure the current crisis of Indian Economy.

Prof. Prabhat Patnaik believes that full convertibility of the rupee on trade account has "introduced a logical problem into the whole structure of the budget". The Government will not be able to moderate inflation, will have no control over its investment expenditure and will fail to ensure a stable exchange regime. Obviously inflation, investment, and exchange stability are inter-related. His prescription to the problem is that exchange rate could be stabilised either by drawing down foreign exchange reserve or by regulating inflow of overseas resources or by curtailing investment targets. India can not afford to draw from precarious foreign exchange reserves. The only silver lining of the cloud is to curtail its own investment." The government may have specified expenditure targets, including those on social sectors, but it may have no freedom to spend on them.



He believes that the strategy of borrowing to finance public investment would be much more effective if it was accompanied by higher direct taxation instead of convertibility. Prof. Kaushik Basu believes that India has not adopted full convertibility to convert rupee into hard currency at market rate. The government can only prevent wild speculation. The flight of capital from this country is a genuine fear. But the apprehension may not be correct as in some countries capital has actually flown into the country which went in full convertibility in current account and there was no cut-back in investment. For example, South Korea, Taiwan, Singapore and China are very open and they are now managing the highest level of investment

Another genuine fear is closure of some home based industries due to trade liberalization.

The opening up industries will certainly affect indigenous industries. "Industries which need permanent protection of 110 to 120% tariffs are industries where India does not have a competitive advantage". Such industries should close down and release resources for other valuable economic activities. Certain industries which currently produce at very high cost since they have not been exposed to competition. Such industries will not close down because of trade liberalization. These industries will learn to be more efficient. It goes without saying that convertibility is an essential condition of trade liberalization but not a sufficient condition.

There can not be any doubt that list of areas in which structural reforms have been initiated is impressive by any standard. The agenda of reform is comprehensive. Implementing comprehensive reform necessarily takes time. The basic decision to deregulate and open up of the economy is inescapable. All changes involve uncertainties and generate apprehensions. Economic restructuring involves liberalisation of industry and trade and financial sector can only succeed if macro-economic Balance is maintained. Otherwise economic liberalization will be jeopardised by inadequate investment in critical infrastructure sector and resurgence of inflation and renewed pressure on inflation.

**INTEGRATED WOMAN & CHILD DEVELOPMENT  
IN ORISSA :  
PROBLEMS & PROSPECTS**

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## Village Women In Orissa And The Planned Socio-Economic Change In India

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### Introduction:

Integrated development of child and woman, among other things, hinges on how women's worth is realised in economic, political and social spheres. This enables them to take care of children healthily on the basis of up-to-date knowledge and information. The paper, therefore, gives stress on the development of women in the context of the country's planning.

Male dominance and female subordination are nearly a world-wide phenomena. This asymmetry manifests itself in all aspects of human life. Strategies are being developed to achieve equality between the sexes. Women's development in India has caught attention late in the development process. Not only is the gap between the development of women and men wide which must be narrowed, but also there are hierarchies of development for different groups of women. This paper explores aspects of these areas through a case study of a village in Orissa.

### Scope :

It is confined to three specific items. At first the status of women in the village is ascertained. Then, issues regarding women's development in the context of the nation are raised. Finally, a way is thought out to integrate the women of the village with the national mainstream.

### Village Setting :

Puttipadar is situated in the district of Ganjam. It is at a distance of 14 kms. from the city of Berhampur. On its east is Gopalpur-on-sea at a distance of 5 kms. The village is in the grip of tradition but is exposed to modernity. There are 131 households. The total population is 532. Women constitute 269 and men 263. 154 men and 179 women are engaged in various types of work.

I  
Women of the village work in traditional agriculture and modern construction sectors. In the agricultural sector, work life is not much hierarchical. Most of the work activities are manual and interchangeable between sexes except ploughing. In the construction sector, work arrangement is hierarchical. In both sectors women work at the bottom of the ladder selling their labour power for wage. They are pushed to the low paid extremely routine manual jobs. Nearly all of them are engaged in the peripheral market activities. There is discrimination, exploitation and harassment which they swallow. On domestic front women are house-keepers and shoulder the major responsibility of childcare. Table-1 presents data which ascertain women's position vis-a-vis men in the village. Ten indicators are chosen for this. The village has more working women than men. This is partly because under-aged girls go to work; boys of this age seldom take to job work. Another reason is that old widows have to earn for survival. Men have series of advantages.

TABLE - 1  
UNEQUAL POSITION OF WOMEN IN THE VILLAGE

	Women	Men
1. Working population	179	154
2. Total number of days employed in the year	32,313	44,142
3. Number of days lost due to domestic and other compulsions	1,959	890
4. Loss of wage due to payment below the legal minimum wage (in Rupees)	48,478	—
5. Per capita earning (in Rupees)	1,500	4,236
6. Work per day (house work & wage work) (in hours, minutes)	11.35	8.36
7. Time allocation for house work per day (in hours, minutes)	5.42	1.22
8. Leisure enjoyed per (in hours, minutes)	4.46	7.41
9. Number of victims of domestic violence	31	—
10. Sexual harassment in the work place*	105	—

Note : Data in the above table relate to the year 1987.

Source : L. N. Dash, "Women, Family Living and Village Welfare", Ph.D. Thesis, Berhampur University, 1990.

\* Sexual harassment here refers to teasing, peripheral sex and sex act.

Their workdays are more; loss of working days are less; per capita earning is much higher; total work (house work & wage work together) in terms of hours spent is less; time spent on housework is disproportionately low; and leisure hours are on the high side. In all these respects women lag behind men. Besides they sustain wage loss to the tune of forty-eight thousand rupees on account of gender discrimination. They are the victims of domestic violence. 31 women are found to have got thrashings their husbands. As many as 105 women face sexual harassment of various kinds at places of their work. 20 parameters—political, economic and social—are applied and scorings for both men and women are computed (Table-2). On the rating scale men of the village score 13.5 and women score 11.5. That the subordinate and unequal position of women of this village is glaring cannot be undermined. Male domination and chauvinism are evident. Man-woman relationship in the village often smacks of lord-serf or master-slave exploitative relationship. The domestic order is, out and out, non-egalitarian. But there are evidences of mutual consultation, sharing in decision-making among couples. Although there is a semblance of democracy, behind the very back there lurks the male fundamentalism which can and which does erupt every now and then. The general powerlessness of women in the village is a proven proposition. This is so despite the fact that women have independent sources of earning.

We can classify women of India on the basis of rural-urban dichotomy and with reference to high, middle, and low income categories. Women of this village are rural low earning group. To fix the village women in their appropriate socio-economic ladder of the country is a more difficult task. It is our supposition that urban middle income, rural middle income, and rural high income class groups in India have imbibed and inherited the same cultural ethos which underscores male superiority and female docility and obedience. The rigour of this ethics has been blunted in case of women of this village. Survival and life's struggle force them to go out of homes. They are not secluded as middle class women are. Unlike the middle class women they are greatly independent of men so far as living is concerned. They earn and feed themselves and others. There is freedom of movement for them. They mix freely with men other than their kinsfolk. In order to protect their person and self-image, they have developed a kind of defence mechanism which the middle class women cannot think of. They have a sharp tongue, loud and shrill voice, and quarrelsome and pugnacious posture. In quick succession they dirt slangs and invectives at the offending persons. In a way they have exhibited qualities of urban women of high income group. Only they are coarse,-



TABLE-2  
STATUS OF WOMEN AND MEN

Variables	Scores	The village			A set of modernised women		
		Women			Men		
		1	0	0.5	1	0	0.5
<b>Political :</b>							
1. Equal opportunity under law and custom			0.5	1			0.5
2. Exercise of voting power		1		1			1
3. Holding political office			0	1			1
4. Members of political organisation			0	1			1
<b>Economic :</b>							
5. Employment opportunity		1		1			1
6. Wage			0.5	1			1
7. Job security			0.5		0.5		1
8. Trade union			0		0		1
9. Maternity/paternity advantage			0		0		1
10. Percentage in labour force		1		1			1
11. High and low status occupation			0.5	1			1
12. Education & training			0		0		1
13. Specialisation in occupation			0.5			0.5	1
14. Average wage			0.5	1			1
<b>Social :</b>							
15. Opportunity for divorce		1		1			0.5
16. Child custody after divorce		1			0		0
17. Male/female participation in house-hold management		1				0.5	0.5
18. Male/Female decision-making			0.5	1			1
19. Marriage obligation		1				0.5	0.5
20. Promoter of social harmony		1				0.5	1
		8	0	3.5	11	0	2.5
		11.5			13.5		
					17		

a little crude and unsophisticated. Besides many women of the village have a say in family and village matter which are decisive. From purchase of household articles to children's education and from the choice of brides and grooms to lending and borrowing, their decision-making privilege gives them a power component for which they are not that helpless.

Nevertheless when the women of this village are compared to advanced educated women of our country, their relative backwardness appears prominently.

## II

The comparison between the groups—a real and the other hypothetical—is made by 20 indices. A three-point rating scale is introduced. When a group enjoys a status, mark '1' is assigned. If the status is not enjoyed, '0' is assigned. If the privilege is enjoyed partly, '0.5' is given. The highest score is 20. The village women have scored 11.5, as against 17 scored by their modern counterpart.

We can imagine a set of hypothetical feminine persons who represent reality but they may not be real beings. These women are educated, married, highly employed and have access to various opportunities. But they cannot reach the ideal of general equality as envisaged in the Indian Constitution. The age-old tradition that the women are wives and mothers and they are to keep and maintain homes has still its hold on the minds of women and men in the country. Atrocities committed on women and the widespread discrimination against them are rampant. One instance is enough to support this statement. Mrs. Rupan Deol Bajaj, a senior IAS officer "objected publicly to the behaviour of the Punjab Director General of Police".<sup>1</sup> The issue was hussed up. It shows that a woman in senior and powerful position has to suffer.

The advanced feminine group has scored as much as 17 in the rating scale. The women of the village score 11.5 and hence are a lagging group. But much more has to be read into the number game. The village women, quality-wise, are much inferior to the super-educated and super-employed elite women. Take the quality of their dress. There is no variety, no novelty and no glaze. They use a particular piece of cloth for a longer period. It is always dirty.<sup>2</sup> The food they take is of low quality. Oil and spices are used below the bare minimum. There is no variety, no taste, and nutritionally deficient.<sup>3</sup> Unless very ill and confined to bed, they do not take serious notice of their ailments. They

have no sense of hygiene and sanitation. The well water which women fetch for cooking and drinking is muddy and full of dirt and filth.<sup>4</sup>

### III

#### Plans and The Village :

The third question of integrating the village women with the mainstream of society can be handled against the backdrop of the changing scenes in the country. The freedom movement created an awakening in women.<sup>5</sup> The Constitution<sup>6</sup> guaranteed equality of sexes. The five-year plans through specific programmes have sought to fulfil the general and specific needs of women.<sup>7</sup> Of importance is the Report of the Committee on the status of women in India which has drawn our attention to women as individuals with their basic rights.<sup>8</sup> Equally important is the declaration of women's decade by the U.N. from 1975. This shifted emphasis from ameliorative welfare orientation to developmental approach.<sup>9</sup> Finally, the National Perspective Plan for women seeks to evolve a comprehensive approach to women's development during the last part of this century.

The five-year plans from the beginning have given special attention to general as well as special programmes "for the welfare of women."<sup>10</sup> With the coming of the community development programme women's health facilities were given to health visitors and mid-wives. Then home management was given the focus. The village woman was to be made "a good wife, a wise mother, a competent housewife and a responsible member of the village community."<sup>11</sup> The Mahila Mandala Scheme was introduced so that the women would help themselves. The Central Welfare Board and the State Welfare Boards were created to support Mahila Mandals. Balwadis, nutrition and health care programmes, art and craft training, social and adult education programmes came under operation. International aid such as Ford Foundation support came in a big way. A Department of Women and Child Development has been created to devise and implement schemes for women and children. Voluntary agencies, government departments throughout the country have been involved in very many women's programmes covering health, education, employment, and social and family welfare<sup>12</sup>.

We can sum up by saying that beneath all the programmes lie the concept that women constitute a weaker sex category. They are to be protected. Difficulties which they face are to be removed, their sufferings are to be mitigated. Most importantly their domestic role is to be returned in the light of modernity. Most of the



Mahila Mandals have flopped and those which are successful are because of the dedication of middle class, well-to-do, elderly women who are otherwise free from domestic chores. Poor women in rural areas are mostly out of the focus of the Mahila Mandals. Impact of planning on the village under study should be taken as a whole in order to know the extent of benefit going to the women. The villagers get wage-work from construction projects. The Berhampur University started in 1967. Golabandha Military Cantonment started in 1980. The National Highway construction took place in the early 1970s. The MKCG Medical College at Berhampur came into existence in the 1960s. All these provided continuous work opportunities to women (men) of the village. There have been twelve beneficiaries under Integrated Rural Development Programmes (IRDP). Shops, bullock carts, bullocks were given to beneficiaries which are only men. Rama Pradhan is a Community Health Volunteer (CHV) who is expected to take care of minor ailments. Under the panchayat system there are two ward members in the village who are men. Two tube-wells have been sunk as a source of drinking water. The Block has constructed a road connecting Karapalli and the village. No development officer worth the name has ever visited the village. There is, however, something to speak about birth control programme. Of the 95 eligible couples in the reproductive age of 15 to 44 years, 34 couples resort to family planning. While 22 ladies adopt family control device, 12 men opt for this. Greater female participation in the programme, apart from other things, may indicate male fundamentalism and female helplessness. There is no question of Mahila Mandala ever being heard by the women of the village. The numerous women's programmes which have been under operation throughout the country have not reached this group. Whatever direct or indirect benefit is there, it is due to the percolation effect of the general economic development.

#### **Plan Model for the Village Women :**

We can now conceptualise a model with the help of which women of the village will attain their best selves. In this model women are viewed as individuals, home-makers, productive agents, members of the community and citizens of the country. The object is to fortify them in all these four directions. There are some glaring problems to be tackled forthwith. Poverty is a stark reality for women. Since both women and men are in the clutches of poverty, it is to be tackled in the macro-micro planning framework the country follows. It is to be ensured that Women Specific Programmes are to be identified and implemented for them. There

is not much of health problem. On the average women live 66 years and men 65 years. Infant mortality is low. In the year 1986, 4 male and 2 female babies were born and are alive. But unhygienic habits and insanitary conditions pervade the village community. Women need change of style from cooking to childcare and from cleaning dress to preserving potable water. The women group in the village fare ill in respect of education. More than 90 per cent of them are illiterate and ignorant. Girls between 6 to 14 years of age-group go to work without attending school. 18 ladies were sampled out who could not know any relationship between Orissa and India. 16 sampled ladies could not visualise a moderately bright future for their daughters and grand daughters. Nobody could suggest names of women in the village who could be their leaders or spokes persons. All admitted that wife battering was common, subordination, harassment, discrimination, exploitation are a part of the value system which both the sexes accept. Only one key variable can be tackled—education. It can empower and sensitise. Education, however, must run along many parallel lines. Old skills must be refined and new skills are to be built. Only one lady could earn well because she is a mason. Young girls are to be taught in the evenings so that they will not repeat the low level breeder-feeder-worker role of their mothers. Safe and useful habits are to be inculcated in very short-term workshop and orientation programmes. The women should be paid their full wage which they will otherwise lose by attending programmes. They must be given food and hospitality as incentives. This requires outside intervention. The government and a voluntary organisation together should operate. A women's organisation in the village consisting of village women is to be organised so that the village women can fight their own battle. Given the state and stage of economic development and social transformation in India and Orissa, we think that women's social and economic development in the village depends upon institutional arrangements. An outside element must act as a catalyst and help form a village level organisation. The outside agents are to see that education programmes are implemented fully for a year. The village women group is to be motivated to carry on the work with intermittent support from government and a voluntary organisation.

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# Variations in Female Work Participation and Development in Orissa : A District Level Analysis

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The female work participation and its linkages to development issues have attracted the attention of the researchers in last few decades. The report of the Committee on the status of Women (1974) shifted the attention of researchers to women's role in economic production. It is now widely accepted that the participation of women in the workforce is an essential pre-condition for achieving the twin goal of economic development and population planning. It is, therefore, important to study the female workforce since they constitute a significant proportion of the labour force, particularly in agriculture, and the overall participation rate is considerably influenced by the female participation rate (Dasgupta, 1977). Various studies undertaken in India on the female participation rate seek to explain the extent and trend in female employment and the causes thereof. Studies further investigated the factors behind the regional variations in female work participation rate and the adequacy of data base on women's work. Bardhan (1985) explored the nexus between the caste system and the norms of patrilineal/patrilocal families prevailing in India in determining the extent of female participation in economic production. The cultural and ideological system views man as the primary bread winner and women of dependent for subsistence. It was, therefore, viewed that women's contribution to material production is not economically productive. It was only after the significant reduction in family income, the women are drawn into the workforce. Dantwala (1975) and Banarjee (1978) attributed the need for additional income as the determinant for drawing women into work force. Further the distinction between the outdoor and indoor work prohibits the women of house-holds on the

upper end of the hierarchy to participate in the economic activities. Only the women of the poor peasant households perform the manual work related to cultivation and processing not only in the home compound but also in the field (Chakravathy, 1977 & Kala, 1976).

Another issue of the debate is around the declining trend observed in the female participation rate over various censuses. The fluctuation in the female work participation rate is the reflection of changes in definitions in various censuses. Sen (1983) demonstrates that between 1931 and 1961 censuses the women participation rates are comparable in terms of concepts and therefore, in terms of coverage there will be no decline. The censuses of 1961 and 1971 are not comparable to the post census survey estimates, especially with reference to women (Krishnamurthy, 1984). On to the phenomena of structural change in the occupational structure of females, while Datar (1958) noted the disappearance/diminution of many traditional women's occupation, Thorner (1962) noted the upward trend in agriculture, concomitant with a decline in manufacture between 1901-1951. Sinha (1972) and Mitra (1979) confirmed the decline in women's participation in modern industry.

The proximate explanation to these changes, as put forth by these authors are the uneven pattern of economic growth, stagnation, technological change, mortality, literacy and urbanisation. Ghosh and Mukhopadhyaya (1984) observed that the decline in the female participation rate between 1961 and 1981 has been largely due to the displacement of women workers by male workers. "In the light of the results of the 1981 census, it seems that the main element responsible for worsening of women employment situation for the female was the sex substitution in the workforce as a whole" (Ghosh and Mukhopadhyay, 1984). This sex substitution is the result of the degeneration of occupation specific to women with economic change—an index of sex-substitution in work force—called Substitution Effect: higher rate of withdrawal of females from the labour force caused by large scale unemployment—an index of economic activity—called Employment Effect and an index of the sex ratio of the population—called Demographic Effect.

In the light of the above, an attempt has been made to find out the intricacies of the level of the female participation rate and development in Orissa and its thirteen districts, besides to analyse the contributions of the three factors—substitution, employment and demographic—to the change in women's participation in work force both for the rural

and urban areas. This paper is divided into three sections. First section is devoted to the methodology and data base, the second section deals with the level of female participation and development, the third section brings out the changes in the level of female work participation rate between 1981 and 1991 attributed to these three factors.

## I

### Methodology :

Following Ghosh and Mukhopadhyaya (1984), we have analysed the change in female work participation rate in terms of the change in the ratio of female to total workers, change in the level of employment within the economy and in the sex ratio in the population. Female work participation rate ( $W_f/P_f$ ) is the ratio of female workers ( $W_f$ ) to the female population ( $P_f$ ) where  $W$  and  $P$  being the size of work force and population respectively. The relationship is exhibited in the following identity.

$$\frac{W_f}{P_f} \times \frac{W_f}{W} \times \frac{W}{P} \times \frac{P}{P_f} \dots\dots\dots (1)$$

According to the identity (1) above, change in female participation ratio can be decomposed into (i) the effect of change in the ratio of female workers to total workers, other things remaining the same (ii) effect of change in the employment level within the economy (iii) effect of change in the sex ratio in the population, and (iv) the residuals which stand for interaction among these three factors.

### Data Base :

The level and structure of female participation rate in India can be studied using Census and National Sample Survey (NSS) data. "Frequent changes in definitions, concepts and methodologies have led to the problems of comparability across Censuses, and NSS Rounds. These changes are bound to effect the enumerations of female workers much more than male workers." (Unni, 1989). Since this paper is intended to analyse the spatial dimensions of female work participation rate in Orissa, the entire analysis depends on the Census results, NSSO data being deficient in this regard.

## II

### Level of Female Work Participation and Development :

The directional movement of male work participation is downward for all areas as against no particular trend for females (Table-I).



Barring 1961 the indicator for comparing the extent of work participation of females against males shows higher ratios for rural areas and also in totality. A positive trend of higher work participation of rural females is due to an increase in workers in primary sector activities, particularly in

Table-1

## WORK PARTICIPATION RATE IN ORISSA, TRENDS

Year	Rural / Urban	Work Participation Rates		
		Male	Female	Female/Male
1	2	3	4	5
1961	Rural	61.0	27.4	0.45
	Urban	57.2	13.1	0.23
	Total	60.8	26.6	0.44
1971	Rural	56.1	10.7	0.19
	Urban	50.7	7.5	0.15
	Total	55.6	10.5	0.19
1981	Rural	56.7	21.1	0.37
	Urban	50.1	9.5	0.19
	Total	55.9	19.8	0.35
1991 (P)	Rural	54.6	22.7	0.42
	Urban	48.4	8.3	0.17
	Total	53.7	20.9	0.39

agriculture. 1981 & 1991 Censuses indicate a 2% increase in female participation in agriculture from 78.74% in 1981 to 80.76% in 1991 for combined areas and synonymous situation being observed for rural areas also. A stationary situation prevails in household industry sector so far as the female work participation is concerned and the rate in the total work force varies from 5% to 7%. As evident from 1981 and 1991 census results the female WPR in other works in rural areas constitutes around 10% whereas for urban areas it is around 70% in both the censuses. The dominant reason for more number of females engaging themselves in household work in urban areas is that they belong to relatively higher income groups and also to the upper social strata where persons do not feel it comfortable to employ their women folk in manual and lower cadre jobs, while in the poor rural households, females are forced to leave their household work and the time is utilised primarily in the agricultural and allied activities to earn bread and butter. The prominent reasons for a growing female WPR in agriculture are indicative of the following.

(1) Increase in poverty in rural households which compels the females to leave household works and work in the field and allied activities, and (2) shifting of males from agriculture and allied activities (Primary sector) to other sectors due to technological change. Entering of males from primary sector to other sectors may be due to their responsiveness to these changes.

The poverty as a factor for higher female work participation is seen from the share of female workers in the scheduled caste and scheduled tribe community in the State. The 1981 census reports a female work participation of 25.58% for scheduled caste and 37.04% for scheduled tribes as against an overall participation of 19.80%. Our study of correlation between the female WPR and the percentage of scheduled caste and scheduled tribe female population brings out significant co-efficients to the results of 1981 census. The correlation co-efficients for these variables for combined, rural and urban areas stand out to be 0.76, 0.75 and 0.56 respectively. Literacy is another factor which seems to have affected the work participation and development in the State. Higher the rate of literacy, lower is the participation of females in the workforce. Poverty coupled with illiteracy influences the female WPR. The census results of 1981 and 1991 yield negative correlation for female WPR and female literacy, all significant, for combined, rural and urban areas. The correlation coefficient for combined, Rural and Urban areas are (-) 0.81, (-) 0.81, (-) 0.58 relating to 1981 and (-) 0.88, (-) 0.90, and (-) 0.61 relating to 1991 respectively. This means that more of illiterate females enter to the workforce of the State and proportion may be higher and significant in rural areas.

The crucial issue of relation of female work participation with the economic development in general is found to be negatively associated. The issue was investigated through the rank co-relation co-efficient of the districts in relation to (1) Agricultural Development, (2) Industrial Development, (3) Infrastructural Development, (4) Human Resource Development with the female WPR. The rank correlation co-efficients are (-) 0.154, (-) 0.341, (-) 0.467 and (-) 0.571 respectively. What is heartening to notice here is that the extent of negative relationship varies in an increasing order right from agricultural development to human resource development. This follows that the greater the development of the society, higher is the displacement of female labour force, but the rapidity of displacement is lowest in agriculture followed by industrial development, infrastructural development, and human resource development. Probing into such intricacies may lead to intensive

studies. Pending the case, one may be prompted to think that, (1) the development in agriculture may improve economic conditions of a subset of households the females of which may be diverted to household work or some other allied activities and (2) the technological advancement in agriculture may displace some females in favour of males. Industrial development, on the other hand, accounts for a faster technological change and hence, higher substitution effect in favour of males who respond well to the changes. As has been observed from the rank correlation co-efficient between female WPR and Human Resource Development (education, health, awareness and knowledge) the latter displaces the female work force. Studies confirm that, cross section data on female WPR and development yield a U-shaped curve (Sinha, 1965). The level and structure of female work participation and development in the districts more or less suggest of a similar situation (Table-2)

Table-2

## FEMALE WORK PARTICIPATION RATE (IN PERCENTAGES)

## TOTAL WORKERS

District	Total		Rural		Urban	
	1981	1991	1981	1991	1981	1991
Balasore	6.19*	6.23*	6.14*	6.26*	6.76*	6.01*
Bolangir	22.08	24.62	23.29	26.09	9.64	10.32
Cuttack	6.06*	5.50*	6.08*	5.47*	5.91*	5.75*
Dhenkanal	16.85*	17.02*	17.45*	18.03*	8.86*	7.03*
Ganjam	30.59	29.73	33.44	33.01	12.61	10.35
Kalahandi	22.39	29.87	23.06	31.04	11.43	12.36
Keonjhar	22.42	25.08	23.58	27.21	12.64	9.35
Koraput	34.20	37.57	36.58	40.75	14.82	11.83
Mayurbhanj	37.79	36.89	39.20	38.54	12.61	10.22
Phulbani	34.78	38.52	36.03	40.21	10.62	10.22
Puri	7.21*	7.15*	7.26*	7.07*	6.86*	7.50*
Sambalpur	27.60	29.49	30.47	33.47	10.95	9.20
Sundargarh	21.93	24.63	27.79	33.05	7.19*	6.40*
ORISSA	19.81	20.85	21.09	22.67	9.49	8.28



## MAIN WORKERS

District	Total		Rural		Urban	
	1981	1991	1981	1991	1981	1991
Balasore	4.78*	3.97*	3.64*	3.84*	5.40*	5.28*
Bolangir	10.73	12.72	11.02*	13.13	7.74	8.73*
Cuttack	4.00*	3.81*	3.87*	3.66*	5.29*	5.03*
Dhenkanal	8.09*	9.75*	8.17*	10.21*	7.07*	5.23*
Ganjam	18.13	20.32	19.51	22.32	9.41	8.45
Kalahandi	11.84	15.62	12.06	16.08	8.41	8.79
Keonjhar	11.20	13.96	11.30	14.76	10.34	8.05
Koraput	17.35	21.89	18.18	23.35	10.55	10.00
Mayurbhanj	20.81	21.43	21.43	22.22	9.66	8.64
Phulbani	18.29	21.56	18.76	22.31	9.17	9.02
Puri	4.56*	5.08*	4.32*	4.62*	6.09*	7.16
Sambalpur	14.27	17.07	15.18	18.93	8.97	7.59
Sundargarh	10.22*	11.68*	11.71	14.34	6.49*	5.94*
ORISSA	10.70	12.31	11.07	13.06	7.65	7.12

## MARGINAL WORKERS

Balasore	2.41 *	2.26 *	2.51 *	2.42 *	1.36 *	0.72 *
Bolangir	11.35	11.90	12.26	12.96	1.90	1.59
Cuttack	2.06 *	1.69 *	2.20 *	1.81 *	0.62 *	0.72 *
Dhenkanal	8.76 *	7.27 *	9.29 *	7.82 *	1.79 *	1.80
Ganjam	12.46	9.42	13.93	10.69	3.20	1.90
Kalahandi	10.54	14.25	11.00	14.97	3.03	3.57
Keonjhar	11.22	11.12	12.28	12.48	2.30	1.80
Koraput	16.85	15.68	18.39	17.40	4.27	1.74
Mayurbhanj	16.98	15.46	17.76	16.32	2.95	1.60
Phulbani	16.50	16.96	17.28	17.90	1.46 *	1.20
Puri	2.65 *	2.70 *	2.94 *	2.45 *	0.76 *	0.34 *
Sambalpur	13.33	12.42	15.29	14.54	1.99	1.60
Sundargarh	11.70	12.95	16.08	18.71	0.69 *	0.46 *
ORISSA	9.11	8.55	10.01	9.62	1.84	1.15

\* districts showing lower female work participation rates as against the rates registered for the state.

Though the WPR (total workers) for the State as a whole is low, there exists a lot of variation across the districts. In 1981, the overall female participation in the total work force varies from around 6% in Balasore and Cuttack to 38% in Mayurbhanj. Leaving aside Balasore, Cuttack, Dhenkanal and Puri, rest of the districts witness a higher female WPR as compared to the State average. The figure for 1991 census exhibits a similar picture across the districts. The intercensal comparison of female WPR for Balasore, Bolangir, Dhenkanal, Kalahandi, Keonjhar, Koraput, Phulbani, Sambalpur and Sundargarh indicates higher participation in 1991, while for the rest four districts lower. The female participation in total workforce for rural areas for all the districts remain higher than the combined figures of rural and urban areas in both the census years excepting for Balasore in 1981 and for Cuttack and Puri in 1991. The corresponding data for urban areas exhibit an interesting result. The WPR for rural and urban areas together and rural areas separately remain below the state average for the districts of Balasore, Cuttack, Puri and Dhenkanal while a highland district Sundargarh shows lower WPR for urban areas in addition to the coastal districts and Dhenkanal. The urban WPR of females excepting Bolangir, Kalahandi and Puri exhibits a decline over the census periods.

The pattern of WPR across the districts for main workers was almost similar with the total workers. The female main workers for rural areas and for rural and urban areas combined show higher rates over 1981 for all the districts excepting cuttack. But for urban areas the WPR shows a declining trend and this decline is witnessed for all districts barring Bolangir, Kalahandi and Puri. The WPR of marginal workers exhibits a declining trend for rural, urban and rural and urban areas combined for most of the districts. The exception to this trend is witnessed for Bolangir, Kalahandi, Phulbani and Sundargarh districts for combined areas : for Bolangir, Kalahandi, Keonjhar, Phulbani and Sundargarh for rural areas and for Cuttack, Dhenkanal and Kalahandi for urban areas.

1981 and 1991 census data therefore clearly reveal the pattern of female work participation in relation to overall economic development of the state. The highland district Sundargarh is industrially the number one in the state and also in case of infrastructural development. The reason that follows is that the People of higher income strata do not allow the females to work outside the house and the district being industrially and infrastructurally developed substitutes the females in favour for males. Cuttack, Puri, Balasore and Dhenkanal though do

not hold higher rankings in the development indicators, as constructed by the Planning and Co-ordination Department of the Government of Orissa, happen to be the key districts in developmental perspective. Cuttack, Puri and Balasore are the coastal districts and are developed. Dhenkanal as perceived to-day is in between the developed and under developed districts. However a conflicting view has been expressed by Narain et al (1992), who categorised Dhenkanal as an economically low developed district. According to them Puri, Ganjam, Sambalpur, Cuttack and Bolangir fall in the first category of districts followed by Balasore, Keonjhar, Mayurbhanj and Phulbani in the second line. An exception is noticed in Ganjam district for establishing the linkage of development with that of the female work participation. There is no two opinions expressed by the State Government and Narain et al (1992) in classifying Ganjam a first category district and Mayurbhanj a second category district so far as the economic development is concerned though the districts registered marginal decline in rank over 1981 census, top two districts in female WPR. Our evidence of a negative association of development with female WPR is negated, may be due to historical reasons that females in the district of Ganjam do major outdoor work including business. The social effect of adjoining Andhra Pradesh may have an influencing effect on higher female participation in economic production. Mayurbhanj shows supports higher female participation from its history and concentration of tribal population.

### III

#### **Change in Female Participation Rate Over Time :**

#### **Results of Decomposition Analysis :**

It appears that female WPR by and large increases for most of the districts for combined, and rural areas. Declining trend is observed for marginal workers as a whole irrespective of areas and for main workers of urban areas. The results of decomposition analysis suggest that the effects-substitution, employment and demographic are stable for the state and also for the districts. This indicates that the forces operating within the society and the economy are stable irrespective of the direction of movement of the female WPR.

The substitution and the employment effect have played significant roles while the demographic effect playing only a marginal role in determining WPR (Table-3). The substitution effect is most dominant for total and main workers belonging to rural areas and also to rural and urban areas combined. The employment effect is most



**Table-3**  
**CHANGE IN FEMALE PARTICIPATION RATIO : ORISSA**  
**DECOMPOSITION ANALYSIS—1981-91**

Workers	Total/ Rural/ Urban	%Change in Female WPR	% Change in Female WPR due to			
			Substitu- tion effect	Employ- ment effect	Demogra- phic effect	Inter- action
1	2	3	4	5	6	7
Total	Total	1.04	115.8	-27.75	9.18	1.01
	Rural	1.59	99.03	-5.42	6.35	0.04
	Urban	-1.22	60.09	39.70	3.73	-3.52
Main	Total	1.61	97.27	-0.82	8.21	0.34
	Rural	1.39	93.02	3.31	2.66	1.01
	Urban	-0.53	7.22	57.80	6.91	-1.93
Marginal	Total	-0.57	-27.18	132.15	-7.73	2.76
	Rural	-0.40	-45.29	14.00	-12.01	3.30
	Urban	-0.69	22.61	83.64	1.28	-7.53

**Table-4**  
**CHANGE IN FEMALE PARTICIPATION RATIO ACROSS DISTRICTS**  
**DECOMPOSITION ANALYSIS—1981-91**

District	% Change in Female WPR	% Change in Female WPR due to			
		Substitution effect	Employment effect	Demographic effect	Inter- action
1	2	3	4	5	6
Balasore	0.04	415.20	-378.11	72.91	-10.00
Balangir	2.54	82.85	10.43	5.17	1.55
Cuttack	-0.56	47.05	59.74	-4.65	-2.14
Dhenkanal	0.17	353.12	-278.51	35.24	-9.85
Ganjam	-0.86	70.57	62.43	-32.98	-0.02
Kalahandi	7.49	65.92	26.28	1.51	6.29
Keonjhar	2.66	89.88	3.28	5.84	1.00
Koraput	3.38	96.79	2.44	0.49	0.28
Mayurbhanj	-0.90	-71.42	182.55	-14.64	3.51
Phulbani	3.73	79.11	18.67	0.58	1.65
Puri	-0.06	-58.10	286.83	-132.68	3.96
Sambalpur	1.88	100.12	-4.52	4.42	-0.02
Sundargarh	2.70	92.97	9.34	-2.99	0.69

dominant for marginal workers for both rural and urban areas combined and separately and for main workers belonging to urban areas. The interaction among these factors has a negligible contribution in determining WPR.

The substitution effect does not operate evenly for all the districts of the state. It has been as high as 415.2% in Balasore district and as low as (-) 71.2% in Mayurbhanj district. The displacement of males in favour of females is highest in Balasore, followed by Dhenkanal and Sambalpur. The second ranking districts in higher rate of displacements of female workforce are Sundargarh, Koraput, Keonjhar and Bolangir. So far as the employment effect is concerned Puri, Mayurbhanj, Ganjam and Cuttack indicate higher effects. The level of employment in the economy being a dominant factor in influencing female work participation, the result suggests that higher creation of employment in these districts will enhance female work participation at an increasing rate.

#### IV

#### CONCLUSION

As observed from the analysis the highland and tribal districts witness a high WPR than the coastal and plain districts. The only exception is the Ganjam district. The low level WPR may be explained mainly in terms of the dominance of males in workforce, level of development, low level of overall employment and adverse sex ratio in the population. In spite of significant regional variations among these factors, the substitution of male and female workers is the main contributor to the change in WPR while the economic factor exerting its influence in urban areas and for marginal workers, the demographic factor has a very nominal role in determining the female work participation rate.

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## Female Participation Rate— Its Trend and Pattern in Orissa

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Women constitute nearly half of the total population of Orissa (49.28 per cent, 1991 Census). Taking the Census definition, the sex ratio in Orissa is above the all-India level. Orissa houses 972 females per one thousand males while the all-India average comes to 929. But as we see, the female work participation in Orissa lies below the national average.

Studies on female work participation are many. But most of these studies indicate lower rate of female participation in different productive activities outside home and the causal factors underlying such phenomenon are economic as well as socio-cultural, varying across regions and households. Contrary to common notion, studies have shown that economically prosperous regions have lower percentage of females in jobs as compared to backward areas. Green Revolution areas show a lower percentage of females in employment than the drylands. Rural households with higher living standard do have lower female employment than the landless households, marginal and small farmers. Between rural and urban areas the former are having a lower rate of female work participation than the latter. In view of this, the present paper attempts to findout the trend and pattern of women work participation in Orissa over time and space. The study discusses the issue using the Census data of 1981 & 1991. The broad objectives of the study are the following:

- (i) To study the trend and pattern of female work participation in Orissa vis-a-vis India as a whole.
- (ii) To indicate inter-state and intra-state (Orissa) variation in female occupations.
- (iii) To findout the possible factors associated with women work participation in Orissa.

### **Results and Discussion :**

A perusal of Table-1 reveals a rise in female participation rate from 19.81 to 20.65 per cent for Orissa and from 19.77 to 22.69

per cent for India as a whole. This indicates that the growth in female participation in productive employments in Orissa lags behind the all-India growth between 1981-90. During this period there has been a decline in male participation rate both at the all-Orissa and all-India level. But the decline is found higher in case of former than that of latter.

The pattern of female participation in jobs varies between Orissa and India during 1981-91. In case of Orissa an increase in rural female participation is accompanied by a decline in urban female participation. But at the all-India level the rural as well as urban female participation has increased. This phenomenon is noticed in relation to total female population and total female worker.

Table-2 presents occupational distribution of female workers for Orissa as well as India at two points of time 1981 and 1991. It is seen that in Orissa, there has been an increase in female employment as cultivators and agricultural labourers. The percentage of female cultivators and agricultural labourers has gone up from 24.50 and 54.24 to 26.03 and 54.73 respectively. But, during this period the female workers engaged in household industry and other works have declined (in percentage). However, at the all-India level, the percentage of female workers engaged in cultivation, household industry and other works has increased and that of agricultural labourers has decreased.

#### **Inter-state Variation in Female Occupation :**

Inter-state difference in the female participation rate is found to be considerable (Table-3). In the states like Andhra Pradesh, Karnataka, Madhya Pradesh, Maharashtra and Tamil Nadu, the rate of female employment is higher than the national average. Other states are below the national average in this respect.

The analysis of data shows no association between the level of development and female participation rate. Contrary to general notion, some of the developed states (Punjab, Haryana, Gujarat and West Bengal) show lower rate of female participation. But simultaneously, some other states (Maharashtra, Karnataka and Tamil Nadu) with more or less same level of development have exhibited higher female participation in jobs. Interestingly, the poorer states like Bihar, Orissa and Uttar Pradesh show lower female employment as compared to all-India average. From the data, it can be inferred that even today, regional as well as non-economic factors influence female employment in India to a great extent.



### Inter-District Variation In Female Occupation :

In order to find out how far the inter-state variation in female participation is observed at the intra-state level, a study is made to that effect between the districts of Orissa. (Table-4). Observation shows a consistent trend in female work participation at the inter-district level, contrary to inter-state analysis. The developed districts like Balasore, Cuttack, Puri and Sundergarh with exception of Ganjam and Sambalpur exhibit lower rate of female participation as compared to all-Orissa scenario. On the contrary, less developed and tribal dominated districts show higher female participation in jobs. The tribal districts like Koraput, Phulbani and Mayurbhanj occupy the first, second and third position (from top to bottom) in the matter of women employment.

Occupationally, the tribal districts reveal higher rate of women participation in cultivation (as cultivators and agricultural labourers) as compared to non-tribal districts. The inland districts like Bolangir, Dhenkanal and Sambalpur show greater female participation in household industries. Greater percentages of females in coastal districts are found engaged in other works (tertiary sector).

### Factors Influencing Inter-District Variation In Female Participation Rate :

Simple rank correlation technique is used to indicate whether there lies any significant association between FPR, female literacy, sex ratio and male participation rate in different districts of the State. The calculation (Table-5) brings out positive correlation between FPR, and sex ratio ( $r = +0.71$ ) and FPR and male participation Rate ( $r = +0.67$ ) and negative correlation between FPR and level of female literacy ( $r = -0.84$ ). This indicates that FPR increases with increase in female population and increase in male participation rate. On the other hand FPR increases with decrease in female literacy and vice versa. The negative association between FPR and female literacy is due to the standard adopted by the Census of India defining a person as literate. Besides, due to dire necessity the women folk in poor households are found engaged in different economic activities. This is not found in families having higher living standard.

### Conclusion and Policy Implication :

Female participation rate in different occupations has increased in Orissa but it remains below the national average. Between 1981-91 a rise in rural female participation rate in Orissa is accompanied by a



fall in urban female participation. Inter-state female participation reveals wide variation, and there is no association between development and female participation rate. Occupationally no consistent trend emerges on concentration of female participation among the states. But between the districts of Orissa there lies a close link between level of development and women participation rate. Relatively prosperous districts show higher FPR in other works (other than cultivation, agril. wage earners and household industry). On the contrary relative backward and tribal dominated districts exhibit greater women participation in cultivation and as agricultural wage earners. There lies positive association between FPR, female population and male participation rate and negative association between FPR and level of female literacy. The findings suggest that it is not FPR in general but the type of FPR that needs emphasis. Incentives should be provided at the governmental level to enhance female education so that they can engage themselves in better productive pursuits. The definition of working population used in the Census should be modified to take into account the contribution of women within the household.

TABLE-1

FEMALE WORK PARTICIPATION RATE IN ORISSA  
AS WELL AS IN INDIA BETWEEN 1981-91

State/ Country	Total Population (number of crores)				Percentage of working population to total population			
	1981		1991		1981		1991	
	Male	Female	Male	Female	Male	Female	Male	Female
Orissa	1.33	1.31	1.60	1.55	55.86	19.81	53.74	20.85
India	36.20	32.13	44.15	40.28	52.65	19.77	51.52	22.69
	Rural				Urban			
	1981		1991		1981		1991	
	Male	Female	Male	Female	Male	Female	Male	Female
Orissa	21.09		22.67		9.49		8.28	
	(18.32)		(20.00)		(8.76)		(8.64)	
India	23.18		27.06		8.32		9.73	
	(17.36)		(20.23)		(1.90)		(2.43)	

(Figures in the brackets indicate percentage to total female workers)

TABLE-2

SHIFT IN OCCUPATIONAL PATTERN AMONG FEMALE  
WORKERS IN ORISSA AND INDIA BETWEEN 1981-1991  
( Percentage to main female workers)

Categories	Orissa		India	
	1981	1991	1981	1991
Cultivators	24.50	26.03	33.20	34.55
Agricultural Labourers	54.24	54.73	46.18	43.56
Household Industry	5.69	5.42	4.59	4.63
Other works	15.57	13.82	16.03	17.26

TABLE-3

OCCUPATIONAL DISTRIBUTION OF FEMALE WORKERS AMONG  
MAJOR STATES OF INDIA AS PER 1991 CENSUS

States	Female Main workers as % of female population.	Percentage of female workers in different occupations to total female main workers			
		Cultivators	Agril. Labourers	Workers in Household Industry	Other works
Andhra Pradesh	30.44	22.39	59.66	6.28	11.75
Bihar	10.47	31.54	57.92	2.86	7.68
Gujarat	14.19	30.84	44.38	2.55	22.23
Haryana	6.45	47.28	24.81	2.23	25.68
Karnataka	23.03	26.01	49.06	3.01	21.92
Kerala	12.85	5.74	35.76	7.76	50.74
Madhya Pradesh	23.08	50.98	37.33	3.40	8.29
Maharashtra	26.66	38.87	43.59	2.65	14.89
Orissa	12.31	26.03	54.73	5.42	13.82
Punjab	4.17	17.71	21.90	5.75	54.64
Rajasthan	13.34	68.92	18.33	2.25	10.50
Tamilnadu	26.31	21.33	52.82	6.44	20.21
Uttar Pradesh	8.24	46.38	35.13	5.59	12.90
West Bengal	8.07	16.53	37.50	12.24	33.73
All India	16.43	34.55	43.56	4.63	17.26

TABLE-4

OCCUPATIONAL DISTRIBUTION OF FEMALE WORKERS AMONG  
THE DISTRICTS OF ORISSA AS PER 1991 CENSUS

Districts	Female Main workers as percentage of female population	Percentage of female workers in different occupations to total female main workers			
		Cultivators	Agril. Labourers	Workers in House- hold Industry.	Other works
Balasore	3.97	12.99	57.23	5.64	24.14
Cuttack	3.81	6.75	50.69	7.63	34.93
Ganjam	20.32	29.54	57.88	3.16	9.42
Puri	5.04	7.80	45.02	7.61	39.57
Bolangir	12.72	20.21	61.19	7.30	11.30
Dhenkanal	9.75	12.13	55.95	8.30	13.62
Sambalpur	17.07	23.68	54.18	18.45	11.69
Keonjhar	13.96	31.90	46.67	3.15	19.28
Mayurbhanj	21.43	31.92	52.74	8.38	5.96
Sundargarh	11.68	28.33	41.22	3.12	27.33
Kalahandi	15.62	21.64	64.57	4.93	8.76
Koraput	21.89	34.88	55.95	1.43	8.54
Phulbani	21.56	32.34	55.15	4.10	7.41
Orissa	12.31	26.03	54.73	5.42	13.82

TABLE-5

RANKING THE DISTRICTS IN TERMS OF FEMALE PARTICIPATION  
RATE, FEMALE LITERACY SEX-RATIO AND  
MALE PARTICIPATION RATE.

Districts	FPR	Rank	Female literacy	Rank	Sex Ratio	Rank	MPR	Rank
Balasore	3.97	12	37.87	3	49.19	8	48.90	12
Cuttack	3.81	13	42.63	2	49.89	10	48.33	13
Ganjam	20.32	4	25.52	8	50.30	1	51.55	10
Puri	5.08	11	42.78	1	48.44	12	51.14	11
Bolangir	12.72	8	18.18	10	49.50	6	57.22	3
Dhenkanal	9.75	10	31.18	5	48.74	11	51.86	8
Sambalpur	17.87	5	28.21	6	49.15	9	55.96	4
Keonjhar	13.96	7	25.09	7	49.22	7	51.63	9
Mayurbhanj	21.43	3	19.56	9	49.54	5	52.39	6
Sundargarh	11.68	9	33.18	4	48.39	13	51.87	7
Kalahandi	15.62	6	12.39	12	50.00	2	59.59	1
Koraput	21.89	1	10.96	13	49.79	4	57.34	2
Phulbani	21.56	2	16.88	11	49.93	3	55.78	5



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## Women Development through Education and Employment

Basudeb Sahoo

The Status of women in Society is measured in terms of the level of income, employment, education, health and the roles played by them in the family, community and society. Notwithstanding the perceptible expansion of education and employment of women in recent years, women as a group still remain subordinate to men. Equality of man and woman enshrined in our Constitution is yet to be achieved in full measure. Sustained effort in planned manner has to be made for the purpose. It is increasingly felt that expansion of employment opportunities for women in diverse fields, in the economy is the most effective method to improve the status of women in the society.

The paper attempts to highlight the state of education and employment of women in the economy & suggest measures to promote it.

### I

That women are relatively more neglected in our society is reflected by the sex ratio, educational level (literacy) and employment situation given in various Censuses and Government publications.

The sex ratio in our country has continuously turned against women since 1901. The sex ratio (Number of females per 1000 males) declined from 972 in 1901 to 930 in 1971, 934 in 1981 and 929 in 1991. The excess of males over females in India's population which was only 3.4 millions in 1901 has gone up to 31 millions in 1991. The sex ratio varies between states. In general the northern states have lower sex ratio than the southern states. Kerala is the only state having sex-ratio favourable to women which has been rising from 1015 in 1971 to 1040 in 1991. The better position of women as well as the out-migration of men may be factors behind it Punjab, Haryana and Uttar Pradesh are the States with a much lower sex ratio (888, 879 and 885 respectively). In Orissa the sex ratio declined from 981 in 1981 to 972 in 1991. There may be four possible reasons for the decline in sex ratio over time : (i) There has been higher emigration of women or higher immigration of men (ii) The sex ratio at birth is becoming more favourable to males (iii) Female mortality has

been higher than male mortality and (iv) There has been greater undercount of females in the current census than in previous ones. The first cause is insignificant as international migration is meagre. In the absence of hard data it has been assumed that for every 100 female births 105 male births have taken place and there has been no change in it over four decades. Biologically females have greater resistance to disease than males. Hence, in most societies, the overall sex-ratio is favourable to females. The opposite is true in India primarily due to relative neglect of females at all ages.<sup>1</sup>

Neglect of female child in our Society has resulted in higher illiteracy and low level of education of women. Importance of education to bring about social change is well recognised. The Fourth Education Commission (1964-66) of India observed :

“For full development of our human resources, the improvement of homes and for moulding the character of children during most impressionable years of infancy the education of women is of even greater importance than that of men”. The UNICEF observed “The education of Girls is particularly important as it improves life of women, child’s health and reduces fertility and mortality”.<sup>2</sup>

Considering literacy rate in the age group 7 and above, it is observed that male literacy improved by 13.28% from 56.37 to 63.86% while female literacy improved by 12.50% from 29.75% to 39.42% (1981-1991). The ratio of female to male literacy has been reduced from 1:1.90 in 1981 to 1:1.62 in 1991. Despite this the number of illiterate females increased by 16.3 million during 1981-91 as against 15.8 million for males. Kerala has the highest female literacy rate of 86.9 per cent followed by Maharashtra, Punjab, Tamilnadu. Bihar, M. P., Rajasthan and Uttar Pradesh accounting for 40 per cent of India’s population have female literacy rate below 30 per cent. In Bihar, MP and UP female literacy rate which was 30 to 36% of male literacy rate in 1981 increased to 40 to 50% of literacy rate in 1991. In Maharashtra, Tamilnadu and Gujarat female literacy rate that was 59% of male literacy rate in 1981 increased to 68 per cent in 1991.

In the decade 1981-91, 118.13 million persons became literate out of which 60.8 million were females and 67.3 million were males. Of the 22 million persons who remained illiterate in the period, 16.3 million were females. The declining sex ratio and low level of literacy confirm the subordinate role of women in our society.<sup>3</sup> In Orissa male literacy rate is 62.37% while female literacy rate is mere 34.44%. In 1981 the corresponding literacy rates in Orissa were 46.90 per cent and 21.11%.



The following explanations may be offered for the disparity in education of males and females :

- (i) Deep rooted religious and other cultural factors discouraging women education.
- (ii) Sex bias and discriminatory hiring practices : (A survey of 5000 Japanese business firms in 1977 showed that 78% of them did not give opportunities to female graduates)
- (iii) Traditional culture, customs and taboos inhibiting woman education.

The UNESCO figures given below show that sizeable inequalities in education of male and female remain in the world.

Percentage of Females in Total Enrolment 1965-1980

Country	Primary Education		Secondary Education		Higher Education	
	1965	1980	1965	1980	1965	1980
Developed Countries	49	49	50	50	38	47
Developing Countries	41	43	32	39	27	34

Source : UNESCO-Statistical Year Book, 1982.

Disparity in enrolment of boys and girls at various stages of education in Orissa reflects the relative backwardness of womenfolk. At primary level in 1983-84, enrolment of boys was found to be 102.5% while that of girls was 71.1%, at middle school level enrolment of boys was 47.3% and girls 25.6% of their respective age group population. At secondary level in 1978-79, enrolment of boys was 22.1% and that of girls was 8.1% of their respective age group population.<sup>4</sup>

In the country notwithstanding the enormous increase in women educated at various levels, there still remains wide gap between males and females. The enrolment ratio for girls in the age group 6-11 years rose from 24.61 in 1950-51 to 83.60 in 1989-90. For girls in the age group 11-14 years the enrolment ratio rose from 4.5% in 1950-51 to 44.58% in 1989-90. In Secondary schools girls numbered 19.61 lakhs in 1989-90 constituting 31.72 per cent of total enrolment. In 1950-51 this percentage was only 16.7. In the higher educational courses girls constituted more than 37 per cent of students enrolled in 1989-90. In this year 34.48 per cent of total students enrolled in MBBS were girls. In Engineering and

Architecture courses girls constituted 36.5%. In teachers' training course girls constituted 44%.<sup>5</sup>

## II

Creation of employment opportunities for women is the most effective instrument to promote women's position in the society. State of women in economic activities could be gauged from the female labour participation rates. In the 1971 crude labour force participation rate for 100 females in India was 11.8 against Japan's 38.7, Czechoslovakia's 42.5, USSR's 45.5, and USA's 29.5.<sup>6</sup>

Male total workers as percentage of male population in India were 52.65% in 1981 and 51.52% in 1991, while female workers formed 19.77% and 22.69% respectively of their population. In Orissa male workers formed 55.86% of male population in 1981 and 53.74% in 1991.

The corresponding ratios for female workers were 19.81% and 22.67 percent.

The number of women employed in the organised sector increased from 13.7 lakhs in 1962 to 35.7 lakhs in 1989. Women's share in employment in this sector rose from 11.3% in 1962 to 13.7% in 1989. However, the percentage of women holding gazetted posts in 1988 was only 4.9 in Central Government. The percentages of women in 1987 in IAS, IFS and IES were 7.4, 9.9 and 12.9 respectively. The corresponding percentages in 1972 were 6.1, 4.9 and 4.9.

In Orissa women employment in organised sector rose from 4948 in 1985 to 74652 in 1992. As percentage to total employees it increased from 7.4 to 9.4 during this period. As per 1991 census female workers in Orissa constitute 27.38% of total workers. The unorganised sector provides employment to about 80.76% of the total female main workers. The household industry sector provides employment to 5% of woman main workers and other sectors provide employment to about 14% of total women main workers. Proportion of female agricultural labourers is 52% of total female workers.

Compared to 1981 census in 1991 census, the ratio of total agricultural labourers increased by 1% and that of other workers by 15%. The ratio of female agricultural labour increased marginally and that of female workers in other sectors declined by 2% during 1981 and 1991 in Orissa.<sup>7</sup> This implies, the scope for absorption as other workers did not expand commensurate with the growth of female workers. Workers in household industry as percentage of total main workers increased

marginally from 3.30 to 3.47 while female workers in this section as percentage declined from 5.69 to 5.42 during 1981 and 1991 in the State.

Female unemployment as per NSSO 27th and 32nd Rounds (1972-73 and 1977-78) formed 11.43% and 9.86% respectively of the total female labour force. These rates are above those for men which were 7.08% and 7.59% respectively. The 38th Round NSS indicates female unemployment as 2.3% much below the male unemployment rate of 5% in 83-84. The definition of 38th Round applied to 27th and 32nd rounds yields female unemployment as 3.5%.

Female unemployment is undoubtedly vast. Some studies find female unemployment to be 40% of total unemployment. Rate of participation of women in active work force has declined from 35% in 1911 to 32% in 1961 and 28% in 1981. Female workers as percentage of total population declined from 34 in 1911 to 14 in 1981. Thus, job opportunities for women seem to be shrinking. With modernisation the axe first falls on women workers. Women also become victims of industrialisation. Workmen in household industry are taken over by factories depriving women of work. Women's mobility is restricted and hence they are not offered jobs in the first place. Women are not given job unless they come with men. The sexist bias is against women. "Contrary to NSS findings female unemployment is of serious magnitude and it has not been tackled with urgency it deserves."<sup>8</sup>

### III

The preceding discussion reveals that (a) women are treated as subordinate sex and their ratio to men is declining (b) In spite of rapid expansion of education there are still high percentage of illiteracy and low level of education among women (c) opportunities for employment of women are not expanding adequately and the problem of women unemployment is serious. No wonder that women are often shabbily treated in a male dominated society.

The Government has been aware of the problems of women in social and economic fields and has introduced a number of measures to ameliorate their conditions.

With the publication of the Report of the Committee on Status of women in India, the observance of the international women's year in 1975 and the preparation of National Plan of Action for women, concern for development of women was brought to forefront. Equal Remuneration Act was enacted in 1976. Bureau of women's Development was set up and a separate Department of women's welfare was carved out at the centre in 1985. Various legislative measures have been adopted



to protect women against discrimination and exploitation and self-employment schemes were introduced in the 7th plan. Their impact on the status of women in the society is gradually being felt. To accelerate the progress of women in various fields, efforts have to be made in the following directions :

(i) Awareness about the need for improving the status of women has to be created through mass communication.

(ii) Voluntary organisations have to be promoted and supported to accelerate the process of women development.

(iii) Awareness and knowledge about the legal provisions and infrastructure for availing of these have to be promoted.

(iv) Reorientation of the courses of women education at various levels to suit the natural proclivity, interest and ability of girls has to be effected.

(v) Steps should be taken to generate employment opportunities that may not conflict with the domestic chores of women.

(vi) Special courses of management and vocational training should be imparted to the girls.

(vii) Participation of women in various local bodies under decentralised administration and planning as well as in the Legislatures has to be encouraged and incentives to the women folk may be given for the purpose in form of reservation etc.

(viii) Last but not the least, organisation of women as in Chipko movement and Women Development programme in Rajasthan to protect and fight for the interest of women as a class may be undertaken on a wider scale.

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## **Development of Women and Children in Orissa : A case study of Koraput District.**

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**&**

**Sri B. Eswar Rao Patnalk.**

Women constitute a unique resource and expertise available in every country for building up of a new social order. Most of the women in rural areas are engaged for the major part of the day in household work and many of them make time to take part in various economic activities of the family. In rural areas women perform a major part of agricultural operations like breaking clods of earth, manuring, weeding, transplanting, harvesting, threshing and winnowing. Women do most of the work of caring for the dairy animals and marketing of their products. They also lend a helping hand in other small industries like rope and basket making, pottery, handloom weaving, food processing and the like. Thus the burden shared by the women for the socio-economic development is two fold. One on the domestic front and the other on the economic front. They are too much overburdened because of the multifarious duties to be performed by them. The difficulties of getting drinking water, fuel for cooking, health services etc. stand as obstacles to run their domestic front smoothly. Besides they are to adjust in a number of adverse situations while performing economic activities outside home.

According to an estimate made by I.L.O. women perform one-third of the world's counted labour. However, they earn less than one-tenth of the world's income and control less than one-hundredth of the world's property. The world's women Report, 1985 further reveals that women grow about half of the world's food but own hardly any land and find it difficult to get loans, that they perform one-third of the world's counted labour force, but are concentrated in the lowest paid occupations and earn less than three quarters of the wage of men doing similar work and that the desire for girl children has dropped from six to four in just one generation. The report also emphasises that because of poorer education, their lack of confidence, their greater workload are still under-represented in the decision making bodies of

their countries. These reveal in many ways and at many levels — that women have remained relatively powerless.

A number of discriminatory thinking and policies have been responsible to undervalue the contributions made by women in the economic development. In rural areas the activities performed by women are generally either undervalued or not at all taken into account. "The ideological assumption about women's position in the family, that women as housewives must be dependent on their husband's wages, is used to define women's social position, even in cases where women do not have husbands, or are the sole earners. Even in cases where many of these workers are family bread earners, they are regarded as 'inactive labour' or 'secondary workers' or 'dependents' simply because they are regarded as housewives."

Access to education in low income families is mostly sex-specific. It is frequently the male child who continues with his education while the female child drops out to substitute work for schooling or to reduce the financial cost of schooling within the household unit. The sex-role pattern is reinforced by parents, friends, teachers and administrators and has caused differences in behaviours of the two sexes, to the advantage of the male pertaining to education. It is often argued that because women are not expected to get higher employment, there is no need to give them higher education.

Discrimination against women exists not only in education but also in employment opportunities. Due to lack of training and practical job experience, the women are treated as less productive and are often denied the opportunities of employment in highly paid jobs.

In our country the labour put by women is often evaluated in relation to male labour. In a well known study of poverty in India, the earning capacity of a female worker has been equated with two third of that of a male worker. National sample survey has computed one woman unit of work equal to one half unit of a male labour. The underlying assumption of such conversion is that female labour productivity is lower than the same done by man. On this basis, a female worker always gets lower level of wages than that of a man doing the same work for the same period. This assumption is untenable, in as much as in many occupations women have equal productivity and their yield has equal market value. If ploughing done by a woman is said to be less efficient than by a man, a man's productivity in transplanting would be equally less than that of a woman.



Women constitute almost half of the population of Orissa state and the contribution of this population in the socio-economic development particularly of rural areas has been vital. As per 1991 provisional census, the female population is around 155.95 lakhs which constitute 49.26 percent of the population of the state. But the women workforce constitutes only 20.85% (32.39 lakhs) of the total female population. Out of the total workers of the state (118.27 lakhs), female workers constitute 27.38% comprising of 16.16% (19.11 lakhs) main workers and 11.22 per cent (13.27 lakhs) marginal workers. Out of the total female main workers 26.05% are cultivators, 54.74% are agricultural labourers, 5.39% are engaged in household industry and 13.81% are employed in other sectors. The female workforce constitutes 29.11% and 12.91% in rural and urban Orissa respectively.

#### A Case Study :

The present paper is a study of the undivided Koraput district. The findings of the study are based on a sample survey of three blocks in the region i.e. Narayanpatna, Kotpad & Jeypore conducted by the authors during 1987-83. The authors want to acquaint the reader with the contribution of women to the development of a rural economy in a backward region of Orissa. The paper also deals with the efforts made in the district for the development of women and children.

Koraput Region consisting of four districts i.e. Koraput, Nowrangpur, Malkangiri and Rayagada covers an area of 26,961 sq.kms. It covers an area of 17.3 percent of the total area of the state. It has 69.32 percent of its people constituting backward population composed of Scheduled Castes and Scheduled Tribes. 88.74 per cent of the total population of the district are rural population. The number of females per 1000 males in the region is 992 as against 972 for the state. The percentage of literates to the total population of the district in 1991 census is only 18.69, which is the lowest in the state. The percentage of female literacy in the area is as low as 5.46.

#### Contribution of women :

Women constitute 49.53 per cent of the total population of the sample blocks as per 1981 census. However, out of the total workers in the sample blocks, 39.66 per cent were female workers. The corresponding percentage in case of male workers stood at 60.34 per cent in 1977-88. The rate of children participation in the work was 7.35 per cent. A significant finding in the study relates to the fact that out of

112 child workers, only 32 were male children. The percentage of female child workers works out to 71.43 per cent. The percentage of women workers as cultivators, Agricultural labourers, and pertaining to Construction, Manufacturing, Business, Forest collection and live stock work out to 45.84%, 44.14%, 40.7%, 19.3%, 34.8%, 9% & 48% respectively. The percentage of women participation is nil in respect of transport, mining and quarrying and services. Table I represents the comparative percentage of women workers in respect of the state and the study area.

TABLE-I

## PERCENTAGE OF WOMEN WORKERS IN DIFFERENT SECTORS

Category of female workers	Percentage of women workers in the	
	Study area (1987-88)	ORISSA state (1991)
1	2	3
Cultivators	45.85%	26.05%
Agricultural labourers	44.14%	54.74%
Other sectors	18.12%	19.20%

Agriculture is the main occupation of the study area. As large as 94.48% of the total workers were engaged in agriculture and allied activities including live stock and forestry. Only 5.52 per cent of the workers were found to be engaged in non-farm activities like transport, construction, mining and quarrying, manufacturing, business and other services.

It is difficult to measure the female participation rate in the various economic activities of a study area. A correct measure of agricultural participation and of the division of labour by sex, must be based on an accounting of the actual number of days of agricultural work performed by different household members over the agricultural cycle of the region.

Due to lack of time and resources, the data were collected during busy agricultural operations, i. e. sowing, transplantation, weeding, reaping and harvesting operations. The number of days and amount of time spent for field preparation and other non-farm activities by the workers of the sampling households were collected through survey method, with the head of the household recollecting the information

from the memory. Inspite of the best effort to elicit correct information by careful interview, it would not be correct to assume that lapse of memory on the part of the respondent was fully overcome. However, the efforts made to study the female participation rate in such a tribal dominated hilly and inaccessible area would definitely give us some concrete idea, about the subject and help others to take interest for further research on the subject.

It was found in the study area that there is a wide gap in the amount of wages paid for a male and female labourer for performance of work of similar nature. Thus, while a male agricultural labourer used to receive Rs. 8/- for a day's labour, a female farm labourer was receiving only Rs. 6/- per day. With regard to child labourer, the average wage rate per day was merely Rs. 4/-. Thus, the act enunciated in 1976 for equal remuneration for equal work was far from application in the study area.

#### Education :

Education develops in man rational thinking, a clear understanding of basic problems of life, broadens the base of farm orientation service and promotes effective national cohesion in an economy. Education also helps women to be aware of their rights and responsibilities for the development of the nation as well as the region in which they live.

TABLE-II  
BLOCKWISE NUMBER OF LITERATES AND LITERACY  
RATES AS PER 1981 CENSUS COMPARED WITH  
THE SAMPLE SURVEY : 1987.

District/ block		No. of literates			Literacy rates		
		Persons	Male	Female	Persons	Male	Female
Koraput	1981	4,00,564	2,94,462	106,102	16.13	23.62	8.57
	1987	681	550	131	29.21	44.28	12.03
Narayan patna	1981	3,740	2,728	1,012	13.36	19.11	7.38
	1987	138	166	22	22.40	35.9	7.5
Jeypore	1981	9,420	7,193	2,227	14.14	21.45	6.73
	1987	181	152	29	37.98	37.62	8.10
Kotpad	1981	5,983	4,933	1,050	10.62	17.39	3.76
	1987	362	282	80	23.75	54.76	18.26

Source : Govt. of Orissa : District Statistical Hand Book, 1990-91, KORAPUT, Directorate of Economics & Statistics, Orissa, O. G. P July, 92 PP. 81.



According to Table-II, male and female literacy rates in the study area are 44.28% and 12.03% respectively as against the average literacy rate of 29.21% in 1987 Sample Survey. It indicates that there has been significant improvement in the percentage of literacy between 1981 census and 1987 Sample Survey. The average literacy rate has increased from 16.13% to 29.21%. The literacy rate of males has almost doubled and those of females has increased by 50%. But compared to the average literacy rate of the state i. e. 34.12%, and male literacy rate of 46.90% and female literacy rate of 21.11% in 1981 census, the literacy rate of the study area does not appear to be promising.

#### **Strategy for women's development :**

A series of social legislations have been enacted from time to time for raising the status of women in the state. During the plan period, general as well as special programmes have been taken up for the welfare of women and also to meet their special requirements. The threefold strategy of education, employment and health has been rightly recognised by the planners to raise the women in the socio-economic ladder of the society.

The Integrated Child Development Scheme (I. C. D. S.) provides a package of services relating to immunisation, nutrition, pre-school education, health education to pregnant and nursing mothers. Considering the mal-nutrition and high rate of mortality prevailing in tribal areas, I. C. D. S. has been started in 119 blocks in 12 districts of the state with world Bank assistance. Besides, another scheme known as Supplementary Nutrition Programme (SNP) is being implemented in various backward regions of the state. This programme aims at making up for the calories deficiency of food intake, especially among pre-school children, expectant and nursing mothers and school going children. Food is provided by state government, Government of India and external donors like CARE. In addition, Central wheat based nutrition programmes have been running at the ratio of 2 : 1 between centre and state. The state Government will bear entire cost of the programme from 1993-94.

Out of 42 blocks in the undivided Koraput district, 13 blocks were covered under I.C.D.S. Projects in 1978-79. In 1986-87 five more blocks were covered under the programme. By 1991-92, all the blocks in Koraput region were covered under the I.C.D.S Projects. During 1992-93, through the central SNP with local food i.e. wheat, Dal and Jaggery 3,61,687 children and 78,313 mothers were benefited.

In order to rehabilitate the children in distress ten orphanages are functioning in the district with an admission capacity of 525 children.

The district branch of the Women's Development Corporation which was set up in the state during 1990-91 to hasten the pace of development of women by promoting entrepreneurship, facilitating institutional finance, providing technical expertise and upgrading skills through training, has not yet been formed in the district.

The working of I.C.D.S, S.N.P. and Anganbadi centers in Koraput district is suffering from a number of difficulties. The quality of food supplied under these programmes is bad. In most of the villages there is neither any accommodation facility for the Anganbadi workers nor any available for the centre. The success of these programmes mainly rests on the spirit of devotion and interest of the Anganbadi workers. However, it has been observed in the field that most of these workers lack both in spirit and devotion.

On the basis of the present study the following points emerge which can be taken into consideration for framing a suitable strategy for women's development in rural areas.

A number of anti-women cultural and religious practices restrict women on the use of technology. But certain common technologies which are essential for rural development are amenable to transfer to rural women. For instance, the technique of handling a household methane system (Gobar Gas Plant) would help a village lady for cooking, heating, and for using good manure in her cultivable lands. The introduction of such technologies may pose innumerable difficulties at the initial stage. However, once the village lady starts getting the real advantages of such technologies, it would be easy on the part of planners to achieve the desired goals of economic development.

Besides the household activities, the rural women workers are acting as catalytic agents in the development of the economy by their active participation in small industries like doll making, pottery, handloom weaving, broom making, basket making, bee keeping and sericulture. They are also engaged in a host of non-farm activities like palmgur and cane-gur processing, processing of cereals, goat and sheep rearing, dairying, needle work, embroidery, tailoring etc. However, such women face problems of credit, raw materials and marketing facilities. Sometimes the women folk are not able to identify any bankable scheme that would suit them. They often find it difficult to get loans from Banks as land records mostly stand in favour of male members.

Such women need to be identified and should be provided with credit facilities at their door steps. Necessary skills and management training are to be imparted to them at places where they can conveniently learn the managerial skills and handling of necessary machineries preferably through women officials. Imparting training about a variety of labour saving techniques suited to their needs and local resources would also help to develop labour saving techniques and foster development of rural women.

Education, knowledge and skill add to one's earning capacity, widen the base for job opportunities and render possible organisation of women for their rights and inculcate in them the small family norm. The programmes of universalisation of elementary education have to be suitably directed towards higher enrolment and retention of girls in schools. Besides, literacy programmes would have to be extended particularly for women in the age group of 15-20 years who have not done their formal schooling earlier.

There is a considerable amount of discrimination between male and female workers as regards the amount of wages paid. In the study area, the female wage rate varied between 60 to 70% of the male wages. This situation calls for formulation of comprehensive laws regarding wages and their effective implementation, to protect the interest of women labourers.

It is high time that an integrated approach is formulated for the overall development of women folk to enable them to participate in the socio-cultural and economic development of our country. The problem of women's development should constitute an important segment of planning process. Any further neglect of this important issue would stand in the way of economic development of the country.

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# APPENDIX -I

Table unfolding Sectorwise Flow of income for different categories of workers in study area of Koraput (1987-88)

Sl. Occupational No. Break up.	Narayana Patna Block workers			Kotpad Block workers			Jeypore Block workers			Grand Total				
	No. of Males	Income in Rs.	No. of Females	No. of Males	Income in Rs.	No. of Females	No. of Males	Income in Rs.	No. of Females	No. of Male workers	No. of Female workers			
1. Cultivators	106	211665	130	259590	142	420621	123	364341	228	484023	150	318437	476	403
2. Agricultural Labourers	56	45782	36	29430	61	64050	42	32160	64	76800	65	62456	181	145
3. Transport	16	25885	—	—	19	23385	0	—	20	200795	0	—	55	—
4. Construction	9	6000	6	3000	11	6600	7	3150	12	7200	9	4050	32	22
5. Mining/ Quarrying	16	9250	—	—	18	15456	0	—	20	24450	0	—	54	0
6. Manufacturing	15	12750	4	1945	18	14400	5	1720	17	76500	3	6800	50	12
7. Business	4	48000	2	15315	5	45000	3	17170	6	90000	3	32560	15	8
8. (a) Forest Collection	7	52500	4	16471	—	—	—	—	—	—	—	—	7	14
(b) Livestock	0	—	0	—	6	6510	6	6510	7	11550	6	9118	13	12
9. Services	6	35049	—	—	16	117576	0	—	14	293370	0	—	36	—
Total	235	446881	182	325751	296	713598	186	425051	388	1264689	236	433421	919	604
Average		(Rs. 1902)		(Rs. 1790)		(Rs. 2411)		(Rs. 2285)		(Rs. 3260)		(Rs. 1836)		(60.34%)(39.66%)

Total No. of Workers = 1523 \* Aggregate Income = Rs. 3609401 \* Average : (Rs. 2370)

Average Income of Males : Rs. 2639/- \* Average Income of Females : Rs. 1961/-

Source : Sample Survey 1987-1988.

## Rural Children—Problems and Prospects

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Children continue to be one of the most vulnerable and neglected sections of the population in our country. Even after four decades of careful and systematic planning, most of the children, particularly in the rural area stay poor, hungry, diseased and are deprived of proper education and training facilities. It is better to have an overview of the situation of rural children through some selected indicators like demographic structure, education, health and nutrition status and the like.

### Demographic Trends :

In general, children constitute a specific age group of 0-14 years. With the increase in population their number is also increasing. Every year, there is a net addition of four million children to the overgrowing population. This trend would go on unabated even by the turn of the century.

Looking at the age structure, it would be noticed that India's population is comparatively young since 2 out of every 5 persons of India were children in 1981. However, the projected figures indicate that the proportion of children in the total population would steadily fall in future. The following table clarifies the point.

Table—1

Percentage of Child Population—1961-2001

Year	Rural	Urban	Total
1961	41.47	38.99	41.03
1971	42.76	39.03	42.02
1981	40.50	36.49	39.55
1991	36.61	32.79	35.56
2001	32.71	28.88	31.15

Source : Report of the Expert Committee on Population of India upto 2001.

The projection, in fact, is based on the declining trends of birth rate in India.

In Orissa, the percentage of children in the total population of the State is 39.84 which is slightly below the national percentage (40.50) in 1981 census. The high proportion of children indeed reflects the high rate of dependancy of children on the capable working population.

India's sex ratio is one of the lowest in the world—929 females to every 1000 males (1991). It is found that the sex ratio is more adverse in the 5-9 and 10-14 year age groups. The most likely cause is higher mortality rate among girls—a reflection of the neglect of girl child.

#### **Health Status :**

The incidence of morbidity and mortality among children tells us about the state of their health as well as that of their mothers before, during and after pregnancy. Infant mortality data reflect the extent of awareness and knowledge of mothers about different aspects related to health and nutrition needs of children. They also reflect the extent of immunisation of children, the availability of health services, the food availability distribution patterns in the family, accessibility to safe drinking water and sanitary living conditions.

The most sensitive indicator of health status is infant mortality rate (IMR) which denotes the number of infant deaths per 1000 live births in a given year. It is rather heartening to find that IMR has steadily declined after 1972 but the rural-urban difference continues to be pronounced. For example, in 1988, the IMR in the rural area was 102, compared to only 61 in urban area.

In regard to physical disability among children, its prevalence in rural area far outweighs that in urban area. Physical disability is defined as the number of persons having disability per 1,00,000 persons. We can find that in any type of physical disability, such as visual, locomotor, hearing or speech the number of children in rural area is much higher than in urban area. Of course it is true that physical disability of any type is more rampant among persons above 60 years of age. The obvious causes of physical disability are malnutrition and infections, both of which are preventable. Other factors are disease, congenital problems and injuries. Prevalence of disability is a drain on national resources.

#### **Nutritional Status :**

Nutritional status is the condition of the health of a child which results from intake of dietary essentials like proteins, calories, vitamins and minerals etc. It is important to have a good nutritional status for normal growth of the body, optimum work efficiency, resistance



to diseases and repairing bodily damages. It is found that nearly 90% of rural children suffer from protein energy malnutrition.

Ill health and malnutrition are ascribed to poor socio-economic conditions and parental ignorance and illiteracy. We generally come across a positive correlation between illiteracy and infant mortality rate (IMR). For instance, in Orissa, the IMR is 131 with less than 10% literacy among mothers above 15 years of age. But in Kerala, the IMR is only 28 with more than 60% literacy among mothers of same age group.

#### **Educational Status :**

In spite of consistent attempts made by the authorities we are still nowhere near the goal of universalisation of elementary education. This is particularly true for rural India. Table-2 gives a deplorable picture of percentage of children attending school in different age groups.

Table-2 :  
Percentage Attendance in School by Age & Sex, India, 1981.

Age (in years)	Percentage Attending School		
	Boys	Girls	Persons
5-9	39.8	25.9	33.1
10-14	57.6	29.2	44.2
15-19	30.9	8.8	20.5

Source : Census of India, 1981.

The table shows that with the attainment of higher ages, the percentage of attendance falls. The obvious reason for this is the large incidence of drop-out. Taking into account the enrolment ratio, it may be found that in Orissa it is 102.42 for children of 6-11 year age group, whereas it is only 47.72 in 11-14 year age group. The All India ratios are 99.96 and 59.15 respectively. This speaks of a very high rate of drop-outs in Orissa.

#### **Working Children :**

Working of children is a common sight in both urban and rural areas. In rural India, children are found in agricultural and allied operations and in household industries. The Operation Research Group, Baroda estimated the number of child workers in the country to be 44 million in 1991. Over 90 per cent of child workers are in rural areas.

The high incidence of child labour is attributed to social, economic and educational reasons. Children are expected to contribute

to the subsistence of the family from an early age. The illiterate parents do not attach any importance to schooling, more so in case of girls. Moreover, most parents cannot afford to send children to school.

#### Situation of Girl Child :

It may be clearly noticed that girls are more dis-advantaged than boys on health and educational indicators. The following table clarifies this situation.

Table-3

Indicators of the Status of the Girl Child in Rural India

Indicator	Year	Boys	Girls
Age specific death rate			
0-4 years	1987	37.8	41.8
5-9 years	1987	3.3	4.4
10-14 years	1987	1.6	1.6
Age specific literacy rate			
5-9 years	1981	29.7	19.4
10-14 years	1981	62.2	36.5
Proportion of Children Attending School			
6-11 years	1981	50.5	31.3
11-14 years	1981	59.5	30.1
6-14 years	1981	53.5	30.9

Source : Compiled from Sample Registration System, Census of India, 1981.

#### Measures Adopted :

The problems and needs of the child require immediate Government intervention. While the earlier approach was in terms of fragment services, it later developed into a holistic integrated approach to child development. In the pre-independence period the strategy of child development was more a voluntary, philanthropic activity and later became more organised. Several policies and programmes were initiated to promote activities in child development. The Indian Council of Child Welfare, Central Social Welfare Board, National Institute of Public Cooperation and Child Development and above all the Integrated Child Development Service Scheme (ICDS) are the main organisations built up over time to carry on the development activities of children.

#### ICDS—The Saviour of Children :

The ICDS Scheme was launched in 1975-76 in 33 development blocks on an experimental basis which has now grown into a major

national child development programme. At present this programme covers 45 per cent of the total area of the country. Upto June 1991, there were 134 central sector ICDS projects working in Orissa. Among major states Uttar Pradesh has as many as 329 projects followed by Bihar (228) and Madhya Pradesh (220).

ICDS pursues distinct objectives of child development and provides an integrated package of services viz. (1) Supplementary Nutrition, (2) Immunisation, (3) Health Check-up, (4) Nutrition and Health Education and (5) Non-formal pre-school education. Providing a package of mutually supportive services has been found to be more beneficial and cost-effective than delivering individual services separately.

The focal point of delivery of services under ICDS is the 'anganwadi' which caters to a population of about 1000 and is staffed by an anganwadi worker and a helper. The job responsibilities of the anganwadi worker are rather more extensive, since she organises non-formal education sessions, provides supplementary nutrition, assists P.H.C. staff, maintains records of immunisation and a host of other functions.

ICDS is a unique programme with a sound concept and strategy. However, several deficiencies in its functioning at the grassroot level have come to light. The implementation of the programme therefore has to be closely monitored and supervised so that the deficiencies can be removed. Properly implemented the ICDS is able to take care of the overall development of children.

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## Women's Development Programmes : Orissa Experience

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### Introduction :

Development of women in India was never been an objective of planned economic development despite their worst sufferings, unequal access to social and economic resources like education, employment, health and decision making. It does not mean that our legislators were silent. Many laws and acts such as Dowry Prohibition Act (1961), Child Marriage Restraint Act (1929), Hindu Succession Act (1956), Equal Remunerations Act (1976) and the Maternity Benefits Act (1961) were enacted and implemented to prevent unfair practices of dowry and dowry deaths, bring equality between men and women in matters of property rights, stop child marriage and provide equal wages for equal works and above all, make the women free from subjugation and victimisation. In fact women in India enjoy an enviable status in paper compared to other countries.<sup>1</sup> But it is a matter of serious concern that the policy makers without being sensitised to the gravity of the problems, for a pretty long time have remained compassionate and welfarist towards the women's cause of sufferings. This is one of the important reasons for which women's fortune in India has not improved by any noticeable Index.

However, after 1975 the first year of UN decade for women and particularly, during the 6th Five year plan (1980-85), a lot of hue and cry has been raised at the National and State levels—for recognising women at par with men and to bring them into the planning process. Since then, there has been a shift of emphasis from the connotation of women's welfare to that of treatment of women as equal partners of men in respect of all socio-economic activities. To-day, the policies in force are described as the measures of welfare, equity, anti poverty, efficiency and empowerment.<sup>2</sup>

In order to achieve all this, many women's development programme (WDP) have been implemented by the Govt.s of each welfare state with aid and advice received from the Central Govt. and Orissa as a state is no exception to it. Orissa is one of the most backward states

in India having half of the female population (i. e., 49.06%) as per the 1991 census, draws attention of all concerns when thrust is given for the women's emancipation from the hell of drudgery, sub-ordination, health hazards and low economic status. But unfortunately, the govt's emphasis with respect to women is not on policy measures, resource allocation or redefining development. It is a move for awareness raising, organisation, mobilisation & struggle against the male folk. As a result of which the fate of Oriya women has not yet changed as intended and they still continue to be the most backward, vulnerable, helpless and powerless.

## II

### Policy Measures and Deplorable Consequences :

The Article 39 of the Indian Constitution clearly envisages equality of men and women and more specifically, a special protection for women. Thus, it becomes the responsibility of each welfare state to adopt various policies and programmes, ensure required resources for the upliftment of entire population including women. During the 6th and 7th Five year plan periods the State Social Welfare Advisory Board of Govt. of Orissa has adopted different measures such as Grants-in-aid to voluntary organisations, condensed course of Education for Adult Women, Mahila Samities, Working Women hostel, Creache for Children of working and ailing mother, Voluntary Action Bureau/Family Counseling centres & Socio economic programmes (Inclusion of women component in IRDP Programmes). Quite recently, Women Development Corporation (Mahila Vikas Samabaya Nigam) has been formed for better employment opportunities and all round development of women. Further, laws have been passed to reserve 30% of the direct employment (up to class-II service) for women along with 30% of seats reserved for panchayat and NAC elections.

The above policy measures, when viewed critically, have nothing to do with the development of women in true sense of the term. On the otherhand huge amount of funds have increasingly poured for different schemes without any assessment of the fundamental cause of their sufferings. In a nutsell, these programmes nevertheless, are akin to a management/owner sponsored trade union of women, owner being the state and Central Government. As a result of which the overall view of the situation of women in Orissa as revealed by the 1991 census is highly deplorable. This is evidenced from the following indices:

1. The total women population constitute 49.06% of the total population of Orissa. (Table - 1).

2. The sex-ratio as per 1991 census is 972. This has constantly declined from 988 in 1971 to 972 in 1991. (Table-1)
3. 65.6% of women are illiterate. Though the female literacy has increased from 21.11% to 34.40% in between 1981-91 but the difference between male and female literacy rate has increased during the above period. (Table-2)
4. As per 1981 census female main workers being 13.97 lakhs constituted only 16% of the total main workers.<sup>3</sup>
5. 90 out of 100 women workers are engaged in unorganised sectors and only 8.3% are employed in organised sector. (Table-3)
6. Employment of women workers in primary sector particularly as agricultural labour has increased but declined in household manufacturing and service sector. (Table-4)
7. Violence is no less an important factor for the marginalisation of oriya women. Percentagewise rape has increased by 54.89%, dowry deaths by 30.50%, misconduct by 37.78% and kidnapping by 33.30% (from the period 1987 to 1991)

TABLE-1

## TREND OF FEMALE POPULATION AND SEX RATIO

Census year	Females (No)	Females (%)	Sex-ratio
1971	21944615	49.69	988
1981	26370271	49.53	981
1991	31659736	49.06	972

Source : Census of India 1971, 1981 (Series-16, Orissa) & 1991 final totals.

TABLE-2

## LITERACY RATES IN ORISSA (IN %)

Census	Persons	Males	Females	Difference *
1971	26.18	38.29	13.92	24.37
1981	34.12	46.90	21.11	25.79
1991	48.55	62.37	34.40	27.97

Source : Same as table-1

\* Male minus female literacy rate.



TABLE-3

## WOMEN EMPLOYMENT IN ORGANISED SECTOR

Year	Public sector	Private sector	Percentages to the total
1981	28276	12551	7.1
1985	37083	12385	7.4
1990	49297	12379	8.3

Source : Directorate of Employment, Orissa.

TABLE-4

## SECTORAL DISTRIBUTION OF WOMEN MAIN WORKERS

Census	Cultivation	Agricultural labourers	Household manufacturing	Service (In %)
1971	19.98	52.55	8.05	19.42
1981	24.50	54.24	5.69	15.57
1991	26.03	54.73	5.42	13.82

Source : Same as table-1.

The above facts and figures clearly substantiate the fact that the top-down Govt. policies and programmes successively adopted till today have not made any dent on the so called development of women in Orissa rather they have created a 'discrimination galore'. To be more precise, the human development index<sup>4</sup> (HDI) in general for Orissa (i. e. 0.348) has gone below the national index (i. e. 0.439).

## III

## Role of NGO's In Women Development :

Since the women's decade, huge funds have been sanctioned in support of social activists, voluntary agencies and organisations. Many non-Govt. organisations have directly collaborated with the Govt. in executing programmes for the socio-economic development of women in Orissa. Their movements have acquired a place of prominence and a legitimacy. It is high time to take stock of these organisations for future course of actions and developing specific strategies.

This section of the analysis is based on the experience of community organisations work that the Nilachal Seva Pratisthan (NSP) has been involved since its formation in 1981.

The NSP is a NGO working in the rural area of Puri district. The founders were pro-Gandhian, educationists and social activists. The organisation is the net outcome of serving badly affected humanity in the year 1978 which witnessed a devastating cyclone followed by drought and flood in the areas of Kanas, Gop, Nimapara and Balipatna. In order to work for the cause of people particularly women, children and poorest of the poor, they instantly took the decision to set up an organisation in the seminar "Voluntary Action in Rural Areas" held on 15. 7. 78 and later on named the organisation as Nilachal Seva Pratisthan. The NSP has been registered under the societies Registration Act XXI of 1960 and certified by KVIC, Bombay. Its headquarter is located at Benagaon — a remote rural area of Kanas, Dayavihar in the district of Puri.

The group formed the pratisthan for the deserted and destitute humanity, especially for women, the children of growing slums, old and disables. This is the outcome of their commitment and experience to serve marginalised groups. To fulfil its endeavours, NSP has undertaken as many as 27 programmes and projects sponsored by various international agencies, Govt. of India and the state Govt. The programmes and projects can broadly be categorised under three heads such as, Educational, Vocational and General welfare. Some of the important programmes meant for women are listed as follows :

Educational	Economical/Vocational	General Welfare
1. Community women organisation and child development Project.	6. Vocational training centre (spinning, weaving, applique, doll making, KVIC activities and tailoring).	10. Population education & family welfare project.
2. Non-formal Education.	7. Short stay home (for women & girls)	11. Creache
3. Formal Education (Girls High School, +2 and +3 College)	8. Women Dairy development project	12. Orphanage
4. Seminars on Attrocities of women.	9. Laxmi Priya Sales centres.	13. Oldage House
5. Anti-Dowry Seminars.		

The organizers of the Pratisthan believe that these programmes and projects are articulated for popular education which challenges gender sub-ordination. Vocational training and rehabilitation ensure socio-

economic upliftment of women and bring them into the development process. All other women's welfare programmes are meant for humanisation of humanity.

In fact, there are only two viable projects such as Vocational training programmes and Dairy development project, for the economic upliftment of destitute women and the rests are more or less to create awareness and for the empowerment of rural women. 105 out of 136 numbers of rural destitutes (comprising of moral danger (29), social victims (37), family dis-organisation (47), mental maladjustment (15) and unwedded mother (8) have been benefited out of vocational training Programmes during 1990-93 and 20 numbers of widows from the dairy development projects.

But all these programmes and projects are in the tune of Government Policies drawn from the women's movement. Thus, it follows that the role played by NGO's is very much limited but some how managed to draw handful of destitute women into so called development process. It should be borne in mind that the women's oppression in the society is a very complex phenomenon and a sum total of their gender, class, and caste reality. Hence, it can be safely inferred that sporadic functioning of NGO's with no clear-cut ideologies & integrated effort, can not bring about any social transformation which is a prerequisite for the development of women of all classes and castes.

#### IV

#### Concluding Remarks :

Socio-economic transformations are the pre-conditions for the development of women. Any improvement in the economic conditions of the women's life is critically connected with a reduction in the so-called social and cultural forms of subordination as well—the struggle is not just for bread but also for human dignity.<sup>6</sup> The falling rate of sex-ratio, increasing disparity between male-female literacy rate, declining of domestic manufacturing, low employment profile, increasing women victimisation along with restricted roles of NGO's clearly project how backward, socially and economically are the women of Orissa. The grants-in-aid, relief-oriented programmes or IRDP are all adhoc-income generating schemes. Similarly, job reservation for women would produce more heat than light because it would add more numbers in the group of young, educated but unemployed males among whom many are the culprits of woman victimisation. Thus, in a backward state like Orissa, neither the Govt. policies nor the projects of NGO's are curative or preventive.



On the otherhand, women's development must be viewed from the angles of social transformations and economic upliftment. Social transformation can be brought about through the changes in laws, property rights, and gender roles which debiliate women's power and integration. Mass education of women will go a long way for the empowerment of women. Gender roles should be redefined not on the basis of biological differences but on merits and age. Moreover, the social transformation must be initiated by the woman herself from her sleeping bed where she is the mother, wife, sister and inlaws. No act can prohibit dowry with Zero incidence of dowry victims unless it is desired and protested by the mother and mother-in-laws of all. Lastly, no movement can succeed without de-politicisation of its functioning.

Many research results substantiate to the fact that anti-poverty measures (in all forms) have failed to reach many poorest of the poor. Thus, it is absolutely redundant to aid women's element in the anti-poverty programmes. There must be specific plans with adequate resources for opening up new avenues of economic activities for women. This can pave the way for easier access to economic resources and lead to equitable distribution of wealth i.e., newly created. Moreover, to improvise the prevailing deplorable conditions of women in Orissa, the structure and the role of social action groups must be redefined with clearcut ideologies. These organisations must be voluntary, non-political, non-institutional and non-professional by nature. There must be co-ordination among different groups workings for the socio-economic transformation of women.

#### Notes :

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## Performance of ICDS Project in Orissa : A Case Study of Sundargarh District

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### Introduction :

Millions of young children in the developing world live in poverty. Often their mothers have to leave them for many hours a day in order to provide for the need of the family. These children, whose number is increasing from day to day are in dire need of alternative system of early childhood care and education. To help them grow to their full potential is a task which may well seem formidable, yet no developing country can afford to neglect it or fail to protect its children, the most precious of its resources. The conviction is based on the understanding that, the most important element of child-bearing, as it has always been the human resource of this all developing countries, even the most technologically backward have an abundance. It only needs to be recognised and channelized. The conviction also grows out of common observation of how women of all sorts and ages, from grand-mothers to teenagers, from illiterates to college graduates in several countries and diverse culture, learn to draw upon their environment to make it yield all that is needed to foster child development.

The Integrated Child Development Scheme is an attempt in integrated childhood services as a step towards human resource development. In order to provide a package of services relating to health, nutrition and educational needs of children below 6 years of age, pregnant women and nursing mothers residing in socially backward villages and urban slums, this programme was launched for the first time in 1975 in block Subdega of Sundargarh district by the Govt. of India. but this programme is administered through the State Govt. The total number of ICDS projects sanctioned upto 1989-90 is 2452 which includes 236 projects in urban slums in the country. Now this scheme has been extended and is functioning in more than 100 blocks of the State Orissa. At present more than 10,000 Anganwadi workers are working under this project. This project is being extended particularly to more backward and tribal-belt blocks, under special consideration.



### 1.1. Objectives :

This paper attempts to

- (1) examine the performance of ICDS in Subdega block, Sundargarh,
- (2) analyse the problems faced by the respondents of the concerned AWWs Centres.

### 1.2 Methodology :

This paper is based on an empirical study of 50 beneficiaries of each AWWs Centre, Rajpur and Baurimunda under block Subdega. The primary data have been collected by the help of the well-structured questionnaires on the basis of a scientific sampling design for the purpose. The sample represents various categories of beneficiaries such as Pregnant mothers, Nursing mothers, 7 months to 3 years of age and 3 to 6 years of age groups of children.

The block Subdega of Sundargarh district consists of 55,523 population, 59 villages, 81 Anganwadi Centres, 17 medical Sub-Centres, one UPSC and two Centres under study. Rajpur and Baurimunda consist of 2746 and 2657 population respectively out of which the total beneficiaries consist of 13 and 12 Pregnant mothers, 14 and 9 Nursing mothers, 70 and 90 children of 7 months to 3 years old and 70 and 91 children of 3 to 6 years of age group in the two Centres respectively.

### 1.3 Analysis :

The present section deals with the composition of population, literacy rate of women in the study area. It analyses the various categories of child beneficiaries and women beneficiaries, immunisation status and infant mortality rate of the study region.

It is observed from table-1 that, in both the Centres, there is pre-dominance of ST population. It constitutes about 55.7% of the total population of Rajpur Centre and 91.21% of the total population of Baurimunda Centre. In Lasammunda, Orampada and Junadihi villages, there are no other castes except ST and SC. Number of females in Baurimunda Centre exceeds number of males, whereas in Rajpur Centre number of males exceeds number of females.

It is seen from table-2 that, literacy rate among the women of 15-45 age group is not bad in both the Centres. It is observed that 74.07% and 62.10% of women of this age group are literate respectively in Rajpur and Baurimunda Centres.

Table—3 relates to number of child beneficiaries as on April-93. In Rajpur Centre, it is seen that children between 0-6 months constitute 10% of the total number of children, and children between 7 months to 3 years constitute about 40% of the child population. In Baurimunda Centre, it is seen that children between 0-6 months constitute 5.44% of the total number of children and children between 7 months to 3 years constitute about 34.35% of the child population.

Table—4 deals with women beneficiaries that is pregnant mothers, nursing mothers of both the Centres. In Rajpur Centre, there are 13 pregnant mothers and 14 nursing mothers as on April 93, whereas in Baurimunda Centre there are 16 pregnant and 16 nursing mothers.

Table—5 deals with immunization status of both the Centres. It is seen that the immunization drive in Rajpur Centre is better than in Baurimunda Centre. Out of 70 children, 66 have taken DPT & Polio, 69 have taken measles in Rajpur Centre. On the contrary, out of 86 children, only 64 have taken DPT and 49 have taken measles. Thus, the difference in immunisation programme in both the Centres is attributable to the difference in women literacy in two centres.

Table—6 depicts the infant mortality for the year 1992-93. It is observed that, in the first quarter, total number of births is 304 and in the last quarter it has increased to 406. Number of deaths has increased from 15 to 24 from the first quarter to the fourth quarter of the year.

#### 1.4 Main Problems :

From the survey the following main problems are identified which relate to the entire ICD scheme in general.

There is irregular availability of food under supplementary nutrition programme. The quality of food is also sometimes very poor, as a result of which the children use to suffer from different types of diseases.

There is no house or any shade for Anganwadi Centre, where the children of 3 years old can learn pre-school non-formal education. As a result, there is lack of proper attendance of pre-school children.

There is inordinate delay in sanctioning the TA, DA to the AWWs, while attending the district level meetings.

There is irregular payment made to the AWWs. As they are less paid, they lose interest to do hard work.



Transportation cost for carrying food stuff is inadequate.

There is lack of availability of doctors to provide medical help at the sub-centre during emergency.

There is also increase of infant-mortality rate due to delayed treatment of ailing children and also due to lack of pre-natal care and lack of timely detection of expectant mother.

The expectant mothers sometimes hesitate to reveal about their pregnancy in fear of sterilization. They also hesitate to take required immunization like T. T. in apprehension of being aborted.

Illiteracy and ignorance are major handicaps for the pregnant and nursing mothers to understand the purpose and value of the scheme.

There is also lack of proper co-ordination between AWWs and ANMs (Auxiliary Nursing Mid-wives) and ANMs and LHV (Lady Health Visitors) with the CDPO and Medical Officer.

#### 1.5 Main Suggestions :

Quality of food supplied to the beneficiaries should be improved.

The cost of milling food grains and fuel cost should be provided to the AWWs by the Govt.

Payment for transport cost should be more and honorarium paid to the AWWs, should be increased so as to create more interest and efficiency for the work.

Sufficient medicines should be provided to the beneficiaries. House should be constructed for AAW Centres to provide non-formal education to the children of 0-3 years. ANM Centres also should be made by the Govt. financed by UNICEF to provide immunization and medicine to the beneficiaries.

There should be regular health check-up of the beneficiaries by the ANM and LHV.

Health and nutrition education should be given regularly to the women of 15 to 45 age, through various audio-visual programmes for example, by showing slides, pictures and posters etc.

Mis-appropriation of food may be reduced by providing the package food or ready to eat food to the beneficiaries.



There should be regular and joint visit of CDPO and doctors, LHV and Supervisors and AWWs and ANMs to the Centre to make the scheme more effective.

Proper help should be provided by the doctors during the time of any referral case made by the AWWs.

CDPO should be very efficient in order to tackle the administrative problems, keeping a proper coordination from grass-root level with the district level.

Project administrator should attend the project level meeting from time to time atleast once a month.

The sector level meeting should be fixed at a particular date by the medical officer. For that there should be appointment of more doctors in a block by the Govt.

#### Conclusions :

On the whole, the success of ICDs depends upon the keen interest, devotion and dedication of the AWWs. They should be given proper orientation and training to have the perfect knowledge of the scheme. Nevertheless, it also depends upon the enthusiasm and co-operation of the mother. Each and every mother tries her level best for the physical and mental development of the child. But despite this, sometimes the mothers fail to meet their responsibility upto their expectation due to lack of education, poverty, ignorance and many other problems. The main purpose of ICDS is to eradicate these problems by making the mother more conscious about their responsibilities. Hence unless and until the mothers are conscious and their attitude towards health and nutrition is changed, the implementation of this scheme can never be complete and successful.

Table— 1  
Composition of Tribal Population

Centre/ Village	ST		SC		Others		Total	
	M	F	M	F	M	F	M	F
Rajpur Centre	438	244	183	115	148	96	769	455
Rajpur Village	338	168	165	107	143	96	651	371
Lasammunda Village	100	76	11	8	—	—	118	84
Baurimunda Centre	759	840	17	19	63	55	839	914
Baurimunda Village	198	233	16	18	60	54	277	305
Orampada	220	262	—	—	—	—	220	262
Kusummunda	135	147	1	1	3	1	139	149
Junadihi	206	198	—	—	—	—	206	198

Table-2

## Women Literacy rate among 15-45 age group

Centre/Village	Literate Women	Illiterate Women
Rajpur Centre	80	28
Rajpur Village	68	20
Lasummunda	12	8
Baurimunda Centre	277	169
Baurimunda Village	100	50
Orampada	87	42
Kusummunda	50	28
Juhadihi	40	49

Table-3

## No. of Child beneficiaries (as on April 1993)

Centre/Village	0-6 months	7 months-3 years	3 years-6 years
Rajpur Centre	14	56	70
Rajpur Village	12	50	49
Lasan Munda	2	6	21
Baurimunda Centre	16	101	177
Baurimunda Village	4	34	75
Orampada	5	25	40
Kusummunda	2	9	32
Junadihi	5	33	30

Table-4

## No. of Women beneficiaries

Centre/Village	Pregnant mother	Nursing mother
Rajpur Centre	13	14
Rajpur Village	12	12
Lasammunda	1	2
Baurimunda Centre	16	16
Baurimunda Village	6	4
Orampada	3	5
Kusummunda	1	2
Junadihi	6	5

Table—5

Immunization Status Jan. 92-April 93

	Rajpur Centre	Baurimunda Centre
Population	2746	2657
D.P.T.	66	64
Polio	66	65
BCG	55	65
Measles	69	49
Total Birth	79	86
Infant death	6	4

Table—6

Infant mortality—1992

Quarter	Birth	Death	IMR
Ist	304	15	73
IInd	387	26	72
IIIrd	430	25	52
IVth	406	34	76



## Integrated Development in Child & Women in Orissa : Problems & Prospects

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The level of output of a country is invariably associated with efficiency of the workforce. Improvement of children is the desideratum for elevating the efficiency of the workforce. It is deplorable that children are succumbed to labour exploitation. In case of India in view of destitution and malnutrition child labour has also low level of efficiency. Women have perceptible contribution to the national output. But discriminatory wage differential constitutes symptom of inequality. Atrocities on women folk in view of abominable dowry is almost pervasive. The concern for women in economic and social development arises from the strong evidence available from different countries across the world of the relative exclusion of women from the development process. Social, economic and legal status of women as a group has been lagging behind their male counterparts. The impact of development has led to a widening gap between the genders in certain areas. The task of integrating women in development work requires simultaneous efforts to improve their condition from both economic and social angles.

Development of Indian women is itself an objective rather than an instrument for development. Their development is inextricably dependent on achievement of equality, stability, security against male chauvinism and social prejudices. In fact till the end of 1970's the real upliftment of women was almost an ignored area in the development strategy of the country inspite of constitutional provision for equality between sexes and special protection for women in the society. Women in India face constraints because of their unique socio-economic position in the family as well as in the society. At the aftermath of 5th plan there has been a change in the attitude towards development of women rather than their welfare.

The Constitution of India in Article 39 (Clause a and d) of the Directive Principles of State Policy distinctly ensures the right to an adequate means of livelihood to the citizens, both men and women

equally and equal pay for equal work for both men and women. It is supported by the Clause (e) that the health and strength of the workers and tender age of the children are not to be abused and that the citizens are not forced by economic necessity to enter into vocations unsuitable to their age or strength. The spirit of this principle calls for economic upliftment of women and children in different fields.

#### **Woman Workforce :**

The proportion of women in the total workforce is substantial. The total female population in Orissa is about 15.53 million which is about 49.25% of the total population of Orissa i.e. 31.51 million as per 1991 census. Out of the total workforce of 100.22 lakhs in the State, the total female workforce comprises of 25.87 lakhs. The female main workers being 13.97 lakhs constitute only 16% of total main workers (86.35 lakhs) in the State. Similarly the female marginal workers (11.90 lakhs) constitute an overwhelming 85 percentage of total marginal workers (13.87 lakhs) in Orissa. Among the total female work force in the State (25.87 lakhs), 54% of female are main workers. The primary sector provides work for about 80% of total female main workers. In rural-urban classification, it was estimated that out of total work force of 100.22 lakhs in the State, 90.47 lakhs and 9.75 lakhs workers live in rural and urban areas respectively. Females constitute 27% and 13.95% of total rural and urban workers respectively. However the percentage of female workforce in urban areas in Orissa (13.95%) was higher than that of Bihar (8.22%), W.B. (8.43%) and All India average (12.98%).

The main workers of Orissa constitute 32.75% of the total population, of which, 15.37% are cultivators, 9.09% are agricultural labourers and 8.29% are engaged in household industry and other vocations. The sexwise distribution of the mainworkers in different occupations in Orissa in 1981 shows that out of the total male workers 51.27% are cultivators, 22.65% agricultural labourers, 2.84% are engaged in household industries and 23.24% in other categories. Out of the total female workers 24.5% are cultivators, 54.24% agricultural labourers, 5.69% are engaged in household industries and 15.57% in other categories. The majority of male workers are cultivators and majority of female workers are agricultural labourers.

#### **Woman workers in Agricultural Sector :**

In our social conditions, majority of the working women are employed as agricultural labourers or as part time workers in household



industries. In agricultural operation woman workers mostly participate in sowing, transplanting, weeding and harvesting in a similar way to that of the male workers except ploughing. Despite this the woman, labourers are employed sporadically and seasonally and paid less wages than their male counterparts. These woman agricultural labourers are mostly from S. C. and S. T. community.

#### **Woman Workers in Household Industries :**

The Scope of employment of women either educated or uneducated in their household industries is pervasive. Most women of the artisan families such as potters, weavers, basket makers, milkmen, oilmen etc. and of families of the service classes such as barbers, washermen etc. work part time or wholetime in their household business. There are also great potentialities for introduction of new types of household industries like tailoring, carpet weaving, dress making, embroidery work, animal rearing, sericulture, horticulture, food preserving and processing for employment of women.

In Orissa about 16% of the woman workers were included in service category as per 1981 Census. The works included under this category are factory workers, teachers, doctors, nurses, office workers, sales women, officers, persons in small business, service in restaurants and hotels etc. There is wide scope of expansion of such type of work with the economic development and educational progress in the State.

#### **Wage Differential :**

Its microscopic meaning implies that women do the same type of work but are paid less merely on the ground of feminine gender. It is supposed that they work less efficiently and less intelligently and need more supervision and their earnings merely supplement family income.

Women are said to be discriminated against men in the labour market when they are treated differently in hiring, wage rates, job assignment, promotion etc. with equal productive capacity with man. That women are destined to stay at home and men to work outside the home is conceived not only by men but also by women themselves. This conception of the role division by the sexes forms the basis of all types of discrimination against women. This also gives rise to pre-market discrimination. They are deprived of getting access to productive augmenting opportunities such as schooling, training for work in the industries and regional mobility. Pre-market discrimination occurs before women enter into the labour market which leads inevitably to post-market



discrimination. Women because of their low level education and training occupy less favourable jobs than what men perform. Generally women undergo two types of post market discrimination. Firstly they may be eliminated by the employers in the hiring process when the latter link job to sex as certain jobs are earmarked for males. Secondly in the matters of promotion men are preferred for further training and orientation courses. The employers may not like to place women in the higher categories of jobs.

#### **Women Employment :**

In order to reduce the problem of unemployment and poverty to a considerable extent specially in rural areas, a new scheme named "The Jawahar Rozgar Yojana" was introduced in the country in 1989 by the amalgamation of NREP and RLEGP. The JRY aims at providing work from fifty to one hundred days in a year to at least one member of every rural family at a place of work near his or her residence. The special feature of this scheme is its focus on women. About 30% of the employment generated will be reserved for girls and women. This Yojana aims at reaching every panchayat and for the first time proposes to place, in the hands of the village panchayat, adequate funds to implement their own employment schemes. If the problem of unemployment among the women are adequately tackled it would ensure in a major way the economic independence and stability to their status in the society

#### **Women Education :**

Education of women occupies a pivotal position in socio-economic reconstruction. The female literacy rate in the State is 34.40% as against 61.37% among males as per 1991 Census. Over the last decade from 1981 to 91 the female literacy in the State has increased by 10.4% (from 23.99% to 34.40%) and is higher in the State as compared to all India average which increased by 9.5% during the last decade. However the position of literacy rate is dismal in case of S C. and S.T. females.

#### **Dowry Prohibition :**

In order to create mass awareness against the evil effects of dowry, the field functionaries have been mobilised through organisation of mass awareness campaigns and seminar-cum-workshops. The dowry prohibition Act of 1984 has been ammended in 1986 aiming at making the act more stringent. The fine increased from Rs. 10,000 to Rs. 15,000. The burden of shifting the offence was shifted to the accused. A sum

of Rs. 2.71 lakhs was spent by the end of seventh Plan for organising dowryless marriages and conducting seminars. A substantial amount has been proposed to be spent during 8th Plan (1992-97).

The social and economic upliftment of women has received greater attention during Sixth and 7th Plan periods. The Central Social Welfare Board, New Delhi initiates the programmes in different States through State Social Welfare Advisory Boards.

The National Policy on Education envisages that education should be used as a strategy for achievement of a basic change in the status of women and it should play a positive and intervening role in the employment of women. Keeping in view the above objectives the Central Social Welfare Board has reviewed and recasted its schemes of condensed courses of education for women. This programme is aimed at providing opportunity for education to illiterate women under age group 15-30 years. A maximum number of 25 candidates is enrolled in one course. During the year 1989-90, 38 institutions had taken advantage of this programme and a sum of Rs. 15.86 lakh was spent educating 940 illiterate women. Similarly during 1990-91, the number of institutions were 16 and an amount of Rs. 15.94 lakh has been sanctioned for educating 390 illiterate women in the State.

#### **Maternity and Child Welfare :**

The objective of this welfare programme is to provide care, protection, education, vocational training etc. to orphan and poor mothers and to bring them to the level of normal citizen's level. The 20 point economic programme aimed at providing vocational education to destitute women and widows, housing facilities to educated employed women in the urban areas and to arouse public consciousness for eradication of atrocities on women. At present 3683 numbers of Mahila Samities are registered in the State and the number of working women hostels are 17. The number of women who have been rehabilitated under the scheme "for training of destitute women" implemented in Kalahandi, Bolangir, Sambalpur, Sundargarh and Dhenkanal Districts are 990. This scheme on development of women and children in rural areas constitutes a part of activities under IRDP.

#### **Integrated Child Development Scheme (ICDS) :**

This is a novel scheme in the field of child development. This programme has been introduced in the State from 1975-76 and it is a Central Sector Scheme. In our State a multitude of children and women



live in impoverishment. This scheme aims at providing an integrated package of services like immunisation, non-formal pre-school education, health checkup, supplementary nutrition, referral services, nutrition and health education to all needy children and mothers in the selected areas of operation. Out of 134 ICDS projects sanctioned, 52 projects are functioning in rural areas, 78 projects in tribal areas and 4 in urban slum localities. The implementation of the multi-State ICDS Project with World Bank assistance came into effect from 23rd Sept. 1990. This project aims at the expansion of ICDS programme in new areas in an improved manner and to streamline the existing delivery of services in some old ICDS Blocks. Accordingly the project contemplates to cover 122 new blocks and improves the delivery of services in 69 old ICDS Blocks.

At the end of the Seventh Plan the number of Anganwadi Supervisors were 495 and the number of Anganwadi workers were 8980. Number of beneficiaries covered under supplementary nutrition programme was 9.75 lakhs by the end of 1989-90.

The Central Social Welfare Board in its socio-economic endeavours provides healthy living for those women who are economically backward and socially downtrodden like destitute widows. On this scheme 7 institutions are operating in different districts of the State and the number of beneficiaries covered under this scheme are 173 during 1990-91. A sum of Rs. 11.48 lakh has been spent.

One of the major recommendations of the Nation's perspective plan for women in the State is the setting up of a Mahila Vikas Samabaya Nigam (MVSN). It was recognised during the previous plan period that lack of access to credit and infrastructural facilities was the major obstacle to women's employment specially in the self-employment sector. In order to provide better employment avenues for all round development of women, the State Govt. at the instance of the Central Govt. have set up the MVSN in the State during 1990-91 with authorised share capital of Rs. 1 crore, shared between the Central and State Govt. on 49% and 51% basis. This Nigam aims at rehabilitating the destitute women providing accommodation for working women, dowry prohibition and other welfare measures.

Development of women depends exclusively on the level of education, sense of awareness to combat dowry atrocities and willingness to be interwoven with the National stream.



# Development of Poor Women Through Income Generating Activities

(NGOs' Perspective)

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The importance of Non-Government Organisations is growing in the developing countries since multi-lateral funding agencies like IMF/World Bank are encouraging them. Even some developed countries are providing assistance for a particular purpose, if it is only undertaken by NGOs. Some independent private institutional organisations are directly granting funds to NGOs for social sector improvements.

The foreign agencies are encouraging NGOs because the government sector has failed in social sector in developing countries. The misappropriation of funds is comparatively less in NGOs; since there is a hierarchy of mis-appropriation in the government sector. There is also no criminal diversion of funds, as in government, in case of NGOs. Most important is the exploitation of cheap unemployed labour in developing countries and lower establishment cost of NGOs to undertake works in social sector.

## I

In view of this importance of NGOs in social sector, we have tried to analyse the role of NGOs in the process of development of poor women through the process of employment via Income Generating Activities (IGA). Employment is a process to participate effectively in decisions that affect women's lives—at the family, community and higher levels of the political process. To most of the NGOs, the faith in women's capacity and their need to participate in order to escape from subordination and powerlessness are considered to be main motives for the development of poor women. The Income Generating Activities (IGA) are one of the various means for employment of poor women, because the poor women constitute the most powerless section of our society. In addition to poverty, illiteracy and burden of overwork with low returns and rewards, lack of acknowledgement and recognition, they are restricted by social biases and prejudices.

This paper tries to analyse the process of development of women by empowering them through Income Generating Activities (IGA) by various Non-Government organisations in Orissa. The paper is based on the discussions of the activists of the various NGOs in a workshop at Puri organised by the Institute for Socio-Economic Development (ISED) in May 1993 and also my personal interviews with the activists. In this paper, mainly the activities of Gram Vikash (Kukudakhundi block of Ganjam), Jagruti (Daringbadi, Phulbani), Indian Institute of Youth and Development (Kalinga, Phulbani), AKSS (Kanasa, Puri), AASA (Kamakshya Nagar, Dhenkanal), Samagra Vikasha Parishada (Baliapal, Balasore) and others are analysed. The main limitation of the paper is that we have not gone to the places of activities of the NGOs.

## II

### 1. Gram Vikash :

Gram Vikash is organising adivasi women in Kukudakhundi Block of Ganjam District for forest-product-based activities. It has been organising women for social forestry, Khali-making but the success is not upto satisfaction. However, in collection, preparation and marketing of tamarind, Gram Vikash is very successful. Previously, one tamarind tree was given in contract to a businessman for one year, for Rs. 50 only. But due to the effort of Gram Vikash, the adivashi women are doing the whole works of tamarind—growing, processing and packing in polythene bags by themselves and selling it through Gram Vikash. At present, the total income from a tree is around Rs. 500. After all expenditures the net income per tree stands at Rs. 300.

### 2. Jagruti :

Since 1982-83, Jagruti has been organising Harijan and Adivashi women in Daringbadi in Phulbani district. In this area, traditionally, in all respects, women are in forefront. Jagruti organises women for Khali-making, thunga-making, kitchen garden, tapioca growing, mushroom growing and imposing prohibition.

However, their effort in making khali got a severe jolt from 1985 when prompt payment was not made by the Agency Cooperative Marketing Society (ACMS). There is marketing problem since ACMS is not showing any interest in purchasing khali and selling at Bombay.

To some extent, they are successful in tapioca growing—(Kathakanda/Gaya Aloo) which is a type of food for the local people; and imposing prohibition in one village, Dasingibari, where 88 Harijan houses were engaged in cooking liquor and marketing previously.



They are more successful in mushroom growing. Forty-two women in 10 groups are engaged in mushroom growing. There is no marketing problem since there is local demand as well as demand from Calcutta and Bhubaneswar for mushroom. On an average, the income per day is more than Rs. 25. But those who got IRDP loan for mushroom growing did not show any interest and failed in their activity. There is a Mushroom Growers' Association of women which discusses about their economic interest. While discussing about their economic interest, the activists create interest in them about the problem of education, health and prohibition. Due to their movement, out of 8 closed schools, 7 schools reopened and prohibition is fully successful in one village.

From the view point of Jagruti, it has not reached the poorest of the poor. Only about 5 per cent of the beneficiaries of the organisation are the poorest of the poor. The government agency like ACMS is, at present, not helping in marketing. Government loan or any type of individual financial help is not an incentive for Income Generating Activities.

### 3. Indian Institute of Youth and Development (IIYD) :

The IIYD organises adivasi women for Khali-making, Agarbati-preparation, and for bee-keeping to produce honey which is a profitable business. To some extent, the activists are successful in organising adivasi women for bee-keeping and adivasi boys to make bee-box, though out of 300 units, 100 units have been closed. The main problems faced by them in organising bee-keeping are : (i) obstacle from forest department who are not allowing adivasis to get wood from local forest to make bee-box for which cost of production of bee-box rises by about 42 per cent when wood is purchased from Bhanjanagar, (ii) harassment from ACDMO in the name of food licence for honey and from sales tax inspector when sale in bulk quantity with label, and (iii) no proper care of bee-box by beneficiaries when bee-box is given without any charge.

### 4. AKSS :

The AKSS (Kanas, Puri) organises women for patch work and producing coconut oil. Sixty women from 16 villages are coming to a campus to do the patch-work. The products are now exported to England as per the specifications of the foreign imports. Income per month per individual varies from Rs. 300 to Rs. 500 on the basis of the speed of the women workers.

To the activists, the following are their limitations : First there are not fully successful to organise the women since it is a conservative



area and hence opposition from men-folk. Second, when there is development of women by Income Generating Activity, the burden is increasing on them as they have to do the household work over and above their work from 10 A.M. to 5 P.M. in the campus. Third, though the women are participating in IGA, they have no power over their income and no decision is taken by them in the household.

#### 5. AASA :

The AASA (Kamakshyanagar, Dhenkanal) is organising women for paddy collection during harvest time and production of rice to sell and vegetable growing in kitchen garden. The motto of their activity is that the women should be organised in such activity where the capital requirement is less and should be engaged in the production of such commodities so that if not sold, in the market, they can use these for their own consumption. In short, engaging women in such work which will give them income, food as well as health. But they are not very much successful in their activity of rice production and vegetable growing.

#### 6 Samagra Vikash Parishad :

The Samagra Vikash Parishad (Baliapal, Balasore) an eight-year old NGO, organises widows, destitutes, deserted women and others, mostly Harijans. The NGO, started first training two women to make mat (saupa)—a popular product in Balasore district where the raw materials are available in plenty. Now, the total membership is forty-six. Their success in mat-making is mainly due to around 29 innovative designs : viz., Taj Mahal, flying bird, and the names of couples for marriage ceremony. Now the demand is coming from Calcutta, Delhi and Bombay. The success is also owing to availability of raw materials in the local areas and the traditional popularity of Saupa in Balasore and Midnapur district. There is absolutely no problem in marketing the product.

There are various impact of this activity. First, due to rise in their business and earning, the women tried to learn by themselves counting and recognising currency. Secondly, previously their children at the age of 7 to 8 years were working in others' houses on the basis of annual contract but now they are going to schools for education due to improvement to economic condition of their parents. Third, some male members are helping the women folk in this activity. Fourth, there is growth of saving habit in post offices/banks. Fifth, saving is utilised for cultivation in groups in bhag-chasa system.

But in the initial stage, they faced a lot of obstacle from the vested interests due to false rumour of forced family planning and conversion to christianity.

#### 7. Others :

Other NGOs like Antodaya Chetna Kendra (Rangamati, Mayurbhanj), CARD (Chilika), Project Swaraj (Cuttack) and Jana Mangala Mahila Samiti (Puri) are taking various activities in their areas but not fully successful in their ventures.

### III

#### Summary and Conclusion :

The main limitation of the activities of the NGOs is that the number of beneficiaries of their activities is very very limited. However, the following conclusions are derived from their activities.

- (i) Higher the caste, lower the freedom of women and development of poor women through IGA. Conversely lower the caste, higher the freedom and higher the development through IGA.
- (ii) More developed the area, less is the freedom, lower the development of poor women through IGA. Conversely less developed the area, higher the freedom and higher development through IGA.
- (iii) Higher the development of poor women through IGA, higher the burden on women.
- (iv) Higher the financial help to individual, lower the personal interest, lower the development of poor women.
- (v) Higher the development of poor women, higher the incentive for education and health and greater the empowerment.
- (vi) Higher the development through IGA, higher the harassment from government departments.
- (vii) Whatever little success the NGOs achieved, it is when they consider the feasibility of the project by taking local needs and local resources into consideration.

[ I am thankful to Mr. Balaji Pande, Director, ISED who offered me hospitality to attend and observe the workshop organised by ISED in Puri on "Employment of Women" and making me acquainted with various NGOs and their activities without which this paper would not have been prepared.]

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# Propensities & Progress of Child Development Schemes in Phulbani District of Orissa

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## 1.0 Introduction :

Children are easy targets of exploitation and atrocities. Many of them live in conditions of destitution and poverty. Survival is a right which is denied to more than 13 million children under the age limit of 5, who die every year on account of causes that can easily be prevented. There are millions of children who suffer in the wake of natural and man-made disasters because of factors like unemployment, poverty and illiteracy of their parents. Poverty and deprivation are haunting a large majority of Indian children.

In 1951 only 42 percent of the 137 million children attended classes at Primary level and only 3.1 million children were enrolled at middle level schools in our country. Girls' education was very poor only 5.4 million were at Primary level, 0.53 million at middle level and 0.17 million at Secondary level. Hardly 17% people were literate. Medical facilities were just rudimentary. One doctor was available for every 6500 people and only about 30 beds were available per 10,000 population. The percentage of children surviving at the age of 5 was 78 and infant mortality rate (IMR) as high as 146 per 1000 live births. Planned development over the years has brought a considerable improvement in the quality of life of vast millions of people. Now more than 74 million children i.e. 84 percent in the age group 6-11 attend the middle level classes.

## 1.1. Objectives :

This paper seeks to analyse national policy on children and to critically assess the schemes of ICDS Projects in Phulbani District of Orissa. The specific objectives are as follows :

- (a) To find out the condition and status of children in India.
- (b) To analyse child welfare programmes during five year plans.
- (c) To assess the national policy on children.



(d) To investigate the success and failure of integrated Child Development Scheme in Phulbani District of Orissa.

(e) To offer suggestions for improvement of children.

### **1.2 Child Welfare during the Plan Period :**

Development programmes for children have been executed as an integral part of the national five year development plans. During the first two five year plans, the Government largely banked upon the voluntary sector to implement some programmes for children, in the third plan conscious efforts were made to build up human resources for executing welfare programmes. Another significant development was the setting up of Demonstration Projects integrating services to meet all the needs of the child from birth to adolescence.

In the fourth plan (1969-74) some institutional and non-institutional services were formulated for the destitute children. The fifth plan recognised the importance of a holistic and integrated approach to child welfare. The realisation paved the way for the introduction of the integrated Child Development Scheme.

### **1.3 National policy for children :**

The needs of children and the national duties towards them have been concretised by adopting a national policy for children. India is one of the very few developing countries to have a national policy on children. The policy adopted in August, 1974 enjoins the state to provide adequate services to children, both before and after birth and through the period of growth to ensure their full physical, mental and social development. Protective and promotive legislations applicable to different sections of children as per their requirements have also been undertaken.

### **1.4 Integrated Child Development Scheme :**

Integrated child development scheme (ICDS) was launched on an experimental basis in 33 selected blocks in the country in 1975-76. Now under this scheme, there are about 2,424 projects in 4300 Blocks (Total blocks in the country are 5092). At present, there are 2,70,000 anganwadi centres in the country, at the rate of one centre per 1000 population in rural areas and urban slums and for 700 in tribal areas. The anganwadis are supervised by Mukhya Sevikas and a child development Project Officer is directly in charge of every ICDS Project.

### 1.5 Objectives of the Scheme :

The prime objectives of the ICDS Programmes to ensure physical, mental and moral elevation of the infants and children who are the harbingers of new age of modernisation.

These schemes aim at providing facilities like supplementary nutrition, immunisation, health to pregnant women, pre school education to children in the age group of 3-6 years and other supportive services like water supply and sanitation.

### 1.6 Progress of the scheme in Phulbani district :

Phulbani is situated at the central part of Orissa and is one of the tribal dominated backward districts of the state. Out of 8.5 lakh population 94.5 percent live in rural areas.

Out of 15 blocks of this district 6 blocks namely Daringbadi, Nuagaon, Phiringia, Kotagarh and Phulbani have been covered under ICDS Programmes prior to the year 1988-89. During the year 1988-89, 7 blocks namely Tumudibandh, Chakapad, Tikabali, G. Udayagiri, Raikia, Salliguda and Harbhanga have been covered under the programme. Similarly two blocks namely Boudh and Kantamal have also been covered under the programme during the year 1992-93.

### 1.7 Schemes :

The following six packages of schemes are being implemented in 13 existing IC.D.S. Projects of this district.

#### 1.7.1 Supplementary Nutrition Programme :

13 Supplementary Nutrition programmes are continuing in the district. The total number of beneficiaries covered as on 28.2.93 are children.

#### 1.7.2 Pre school education :

This scheme is continuing in 13 projects of the district. As on 28.2.93 total number of children enrolled are 28,038 out of which 13,949 are the boys and 14,089 are the girls. But total number of children attending the classes are 24,571 out of which 13,320 are boys and 12,431 are girls. The number of dropouts are more in case of girl children.

#### 1.7.3 Growth monitoring :

The Anganwadi workers are weighing children to assess the nutritional status in 13 projects of the district every month. The weights of children are plotted in a card and the nutritional status are being assessed. The total number of children weighed are 54,719 out of which 18,831 are found to be normal.

#### 1.7.4 Referral services :

The children found to be below normal and pregnant mothers are referred to the Hospitals and required medicines are purchased and provided to them on issue of prescriptions of the medical officers. The total number of children referred are 3563 and pregnant mothers referred are 1626 in 15 projects as on 28. 2. 93.

#### 1.7.5 Nutrition and Health education :

The supervisors and the workers impart nutrition and health education to ladies in rural areas in their respective areas by organising nutrition and health education camps. Total number of camps held are 693 in which 12,964 participated as on Feb, 1993. In 121 camps health staff also participated.

#### 1.7.6 Health check up :

The medical staff and other health officers are required to check up health of children within the age group of 0-3 years, 3-6 years and pregnant and nursing mothers in their ICDS Projects. Total number of health check ups made during the period April 92 to Feb.93 are 61,914 children in 0-3 years group and 54767 in 3-6 years age group. 16778 pregnant mothers and 11433 nursing mothers were also checked up.

#### 1.7.7 Immunisation :

For the year 1992-93 as on 28. 2. 93 total number of targets and achievement are as follows.

	T.T.	D.P.T.	Polio	B.C.G.	Measles
Target	26000	22640	22640	22640	22640
Achievement	16546	17566	17011	20514	16344

#### 1.7.8 Adolescent girls' training :

3 Adolescent girls for every Anganwadi centre have been selected and provided with necessary training. Total number of adolescent girls selected is 2229 who are trained in 743 Anganwadi centres. Ration of 118 Gm. wheat, 1.16 gm. Dal and 39 gm. Jaggery are being given to each girl. They attend the Anganwadi centres to assist as workers in pre-school education and distribution of feeding and the cleaning of the children etc.

#### 1.8 Assessment of the schemes at National level :

Considering the importance of the scheme it should be subjected to constant reviews by different agencies including the Planning Commission from time to time According to the report of the



Comptroller and Auditor General of India submitted to the Parliament and documents published by the National Institute of Public co-operation, the child development scheme has failed to achieve the desired targets. This is mainly due to inadequate understanding in fixing the sectoral priorities. Deficient training of functionaries is also one of the reasons. The training programme schools should be restructured on the basis of involving community participation.

### 1.9 Suggestions and Conclusion :

The programmes should try to change the social attitudes towards women and girl children. It should be capable of laying foundation for proper psychological, social and physical development of the child. It should foster a culture of co-operation and co-ordination of activities with the child and mother as the focus. In a developing country like India where 110 millions children are under six years of age, the programmes can reap rich benefits if implemented with efficiency.

It is the responsibility of all adults, of Governments and of the international community to create and maintain the environment in which families themselves can protect the children. If the families fail to protect their children or circumstances like absolute poverty prevents families from protecting the rights of the children, then Government should intervene in order to provide physical and mental protection for the children.

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# Problems of Integrated Development of Women and Children in Orissa and Welfare Measures

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Development of women is itself an objective rather than an instrument for development. Their development is inextricably dependent on achievement on security against male chauvinism and social prejudices. The status of women constituting half of population reflects the progress of the society. The status of women in society is measured in terms of level of roles played by them in the family, community and society.

The total female population in Orissa is about 15.53 million which is about 49.25% of total population of Orissa. Out of the total workforce the total female workforce comprises of 25.87 lakhs. The female main workers being 13.97 lakhs constituted only 16% of the total main workers in the state. Similarly the total female marginal workers (11.90 lakhs) constitute an overwhelming percentage of 86% of the total marginal workers of Orissa. Among the total female workers in the state 54% of females are main workers. Females constitute 27% of the rural and 13.95% of the urban workforce respectively.

Female participation rates varied widely as between different districts of the state. It was lowest in Balasore district (3.77%) and Highest in Mayurbhanj District (20.81%). Districts like Phulbani, Koraput, Ganjam, Sambalpur and Mayurbhanj have higher female participation rates than the state average and the districts like Cuttack, Puri, Balasore, Dhenkanal and Sundargarh have lower female participation rate than the State average.

## Objectives of the Paper

The present paper makes an attempt to highlight the following issues.

- (i) To examine at length what changes have occurred in the trend and pattern of women employment.

(ii) To evaluate to what extent the protective legislations have widened the scope of social justice for women and children.

(iii) To discuss the policy issues for proper psychological, physical and social development of the children.

(iv) To analyse the problem of child labour, the nature, causes and solution to this social and economic evil.

(v) To assess the adequacy of the measures taken for women and children welfare and reflect the existing discriminatory practices.

### **Changing Pattern of Women Employment**

In our social conditions majority of the women are employed as agricultural labourers or as part time workers in household industries. In agricultural operation woman workers mostly participate in sowing, transplanting, weeding and harvesting like male workers. Despite this, woman labourers are employed sporadically and seasonally and are paid less wages than their male counterparts. These women are mostly from scheduled castes and scheduled tribes. Rigidity of caste and social customs prevent the women of higher castes to work in agricultural operations even if they are economically poor. Women of most of the artisan families and service classes such as washermen work part time or whole time in household industries comprising 5.69% of the main workers compared to 2.84% male main workers.

### **Women in unorganised sector :**

Women workers are employed in the organised as well as unorganised sectors of the economy. More than 80% of the woman labour force work in the unorganised sector. The unorganised sector is not governed by labour legislations as Minimum Wages Act, Maternity Benefit Act, Labour Welfare Regulations and Contract Labour (Regulation and Abolition) Act. The greatest drawback of the unorganised sector is the virtual absence of any reliable data about the number of workers, working conditions and contribution to productivity. Agricultural sector provides the major economic activity to women in unorganised sector. In the organised sector women employed during 1989-90 was 8.3% of total employees of the state. Coming to the problems of working women, there is no denying of the fact that they are subject to two conflicting roles of being career women as well as housewives.

In the unorganised sector the vast ocean of women labour force is untouched by unionisation, by legislation, by Government and the society at large. They do monotonous, strenuous, back-breaking work at



a very low wage and in inhuman, unhealthy working conditions with none of the facilities like permanency of job, maternity leave, creches etc. Despite these, poor working conditions they carry on a continuous struggle for survival without the hope of offering better prospect to their children. They can not ensure for their children longer life expectancy, minimum educational level or a childhood free of economic problems.

#### Problem of Education and Literacy :

A glance of the literacy rates and enrolment not only reflects the sex-disparity in education. This is shown in Table-I.

Table—I  
A Comparative Picture of Women literacy in Orissa.

Year	Persons	Males	Females
1961	25.24	40.26	10.12
1971	26.18	38.29	13.92
1981	34.12	46.90	21.11
1991	42.13	62.37	34.40

Source : Census Tables.

The table reveals that though the literacy rate of both men and women has taken a rising trend over years, female literacy has remained below the male literacy. In 1991 census it is 62.37% for males and 34.40% for females. Besides these the literacy rate for women in Orissa has remained below the national level.

The Fifth All India Educational Survey made by NCERT, New Delhi, 1989 shows the percentage of girls' enrolment to total enrolment in 1986.

The Table-II shows sex wise and age wise attendance in Schools.

Table—II  
Percentage of persons attending School by Sex.

	Age Group	Male	Female	Total
Orissa	5— 9	47.24	31.58	39.37
	10—14	53.91	27.17	40.65
	15—19	24.24	5.73	14.96
	5— 9	39.77	29.84	33.06
India	10—14	57.62	29.24	44.22
	15—19	30.95	8.79	20.48

The Table reveals that the percentage of females attending schools in both Orissa and India is lower than males in all age groups.

This is due to various social-economic causes, like supplementing parents' income by engaging in household work and part time or whole time employment, early marriage, inability to afford higher education.

#### **Enactment of Legislative Provisions :**

Enactment of laws by itself is not enough to mitigate the hardships of women and children in a developing society. The laws are to be implemented properly. In the unorganised sector because of the weak bargaining power, the workers are deprived of getting the minimum wages. The employer in case of female workers has to provide maternity leave, creches, light work during pregnancy and nursing breaks after she joins her duty. Therefore, it has been the tendency of employers to avoid employment of female workers as far as possible.

#### **Problem of Child Development :**

Children for the most important national resource for human development. Child welfare and development has therefore, been accorded the highest priority in social welfare. A serious economic and social problem is the emergence of child labour. As per the 1981 Census report Child Labour constitutes 5.29% of the total working force, those who are working below the age of 14. At present there are approximately 6 lakhs child labour in Orissa. They are widely found in cottage industries, agriculture, domestic services, grazing cattle, collection of minor forest products and fuels, shining shoes, and sale of news papers in the busy public places like bus stand, platforms and selling cinema tickets in blackmarket near the cinema halls. Child Labourers are also largely working under the contract system and are subject to the victims of the exploitative malpractices of the contractors violating the protective legislations for them. In large number of cases perpetual debt of the family or parents forces the children to work from an early age. It has severe adverse repercussions on the physical, psychological and social development of the children.

Another evil which has stood as a bottleneck in the social, mental and emotional development of the children is the practice of child beggary. Though reasons behind the problem of child beggary are numerous, some of the major reasons are inability of their parents to maintain them, orphanhood, maltreatment by step mother, poor earnings from part-time activities, lack of educational facilities, physical

and mental disabilities and some times lure of a city life. Handicapped child beggars resign to their fate and continue in a deplorable state of malnutrition, destitution and deprivation.

Poverty, malnutrition and lack of adequate and proper health care of both mothers and children have attributed to higher rate of infant mortality. It is higher among the tribals. The UNICEF has started special programmes in the district of Keonjhar for the development of the Juang Tribes. In Orissa the infant mortality rate stands 131 in rural, 75 in urban and 126 in the state as a whole.

#### **Progress Made In The Area of Woman and Child Development :**

The following progressive measures have been made for the physical, social and mental development of the children and emancipation of women.

##### **1. Education of Handicapped Children :**

Deaf and dumb schools and schools for blind children have been setup at different places of the State to train the disabled children and make them physically and mentally strong to encounter the challenge of life with greater courage and confidence. 35 numbers of such institutions with an enrolment capacity of 1658 students are functioning in the state by the end of 1990-91.

##### **2. Immunisation :**

The programme of immunisation has been intensified in both rural and urban slum areas. Immunisation cards are being issued to women who undergo deliveries in hospitals to create an awareness about the need to immunise babies. By the end of 7th plan the number of Vaccinations for DPT, DT, B. C. G., Polio and T.T. are 1.68 lakhs, 1.59 lakhs, 1.75 lakhs, 1.66 lakhs and 1.13 lakhs respectively. To increase the availability of immunisation facilities, the programme is being accentuated.

##### **3. Maternity and Child Welfare :**

The aim of this welfare programme is to provide care, protection, education, vocational training etc. to orphan poor mothers & to bring them to normal level of life. Vocational training to destitute women widows, housing facilities to educated employed & arousing public consciousness for eradication of atrocities on women are some progressive measures taken in this field. At present 3,683 Mahila samities are registered in the state and the number of working women hostels are 17. The number of women who have been rehabilitated under the scheme for



training of destitute women were 990. The scheme for development of women and children in rural areas is implemented in Kalahandi, Bolangir, Sambalpur, Sundargarh and Dhenkanal districts as a part of activities under I. R. D. P.

#### **4. Orphanage :**

The objective of this programme is to provide appropriate education including vocational training and gainful employment opportunities to orphans.

#### **5. Nutritional Feeding Programme :**

It aims at removing the effects of malnutrition generally found in the vulnerable sections of the community i.e. children below the age of six years and nursing and expectant mothers. The mid-day meals programme implemented for the under-fed and half-fed children has helped in increasing the enrolment of children in schools and reducing dropouts. During 1990-91, 12.63 lakhs children were benefited under special nutritional programme and 7.52 lakh children under mid-day meal programme. By the end of 7th Plan food stuff required for the programme was met by C.A.R.E.

#### **6. Programme For The Disabled :**

It covers the welfare measures in the form of expansion of treatment and provision of necessary aids and appliances like three-wheelers, hearing aids etc.

#### **7. Integrated Child Development Scheme (ICDS) :**

I C. D. S. is a novel programme in the field of child development introduced in 1975-76 on an experimental basis as a central sector scheme. The package of measures in the scheme comprises mutually reinforcing components of health and nutrition and integrated services like immunisation, non-formal pre-school education, health checkup and referral services for the upliftment of multitude of needy children and women who live in impoverishment.

Out of 134 ICDS projects sanctioned, 52 are functioning in rural areas, 78 projects in tribal areas and 4 in urban slum areas. After the implementation of the multi stage ICDS in October, 1990, the Project contemplates to cover 122 new blocks and to improve the delivery services in 69 old blocks in selected areas. The whole programme should be one which helps to change the social attitudes towards women & girl children.

**Conclusion :**

To educate a child is to educate one's self. Education of the mother is a prelude to the education of children. The aim of educating a child is to develop his intellectual, moral, spiritual and emotional being and his communal life and impulses.

It is apparent from the above discussion that development of women and children must be viewed in the context of social and economic development of the society. The Draft National Perspective plan for women 1988-2000 A.D. states that the focus of the government programmes of women has shifted from welfare to development and women must be looked upon as producers and participants, not clients of welfare. The constitutional provision for social justice for women can be realised by ushering in a new socio-economic order. Ultimately it is not the structure at the top but the movement from below in every home and organisation that can bring emancipation of women and integrated child development.

# Inducing Women to Micro Enterprises

## ( Training Module for Orissa Condition )

**S. B. Misra,**

Director,  
Institute of Entrepreneurship Development,  
Bhubaneswar

The profile of average women in Orissa reflects poor quality of life, illiteracy, traditionality and resistance to accept the changes associated with the process of development. Primarily, women dependent on the family support systems and involved in house hold work can hardly be influenced with any motivation for involving them in productive activity. Extended money income from organised business for women has not made it possible to increase productive activity due to inadequate awareness for starting a micro/small manufacturing/service ventures. However, income generation activities in household agricultural operations are often latent. Employment programme for women by the Government through TRYSEM and DWACRA could generate adequate results but for low participation on account of low status of women, absence of follow-up after incorporation of skill and lack of resources for further incorporation of skill and lack of resources for further sustainability and growth.

### Entrepreneurship An Innovation :

Creation, launching and management of enterprises in the socio-economic environment of Orissa are a difficult proposition as majority of women live in a dependent condition. Entrepreneurship is an innovation for the women in Orissa. Efforts for pre-enterprises leading to a micro-enterprise followed by continuous reinforcement are needed to be groomed as a perpetual succession among women.

A study by U. K. Harper of Cranfield School, England conducted in Orissa entitled : "What makes the poor women start enterprises?" revealed interesting information to represent the entrepreneurial shyness as :

—No Income : did not want to do so.

—No Income Action, : But would like to do so.



- Generating Small Income, Do not like to start an Enterprise.
- Generating small income, Agree to start a micro enterprise (ME).
- Running a ME, like to Expand.

Generation of income through self employment by women in their traditional role may be the panacea for the self sustainment. But for generation of wealth to enlarge the capital base for the growth and development can only come through their entrepreneurial endeavour.

#### **Need for entrepreneurship Training :**

There is great gap in meeting the training needs for the Micro Enterprises. Even though the parental occupation of some has inducted such activities there is need for strengthening such training facilities. Exposure of women to new and sophisticated technical skills are a challenging and time consuming process. Induction of women to the jobs in the organised sectors and subsequently to technical/professional careers have brought changes in them but, added little to the economic growth of the region. Starting micro enterprises for utilising local skills and resources brings faster development.

#### **Training Module :**

The training module for the creation of micro enterprises should comprise :

**Family Counselling :** Since the average Oriya woman is more dependent on the family support system, motivation of the husbands or persons influencing the decision making has to be counselled for encouraging them to start the enterprises.

**Attitude :** The module must include intensive inputs for making women acceptable to the challenges for taking calculated risk in developing and nourishing an innovation befitting to the local needs. Intensive exposure to Achievement Motivation Training (AMT) for building confidence may form the part of the course.

**Assertiveness :** Interface of women to the political and socio-economic process is required for starting and propagating any economic endeavour. Economic activities started as the spread effect to these interface can be a mature step for organising and commissioning the entrepreneurial development projects.

**Information Inputs :** Procurement of raw-materials and marketing of the finished products, requiring the interaction of the

entrepreneurs with the local self-governing bodies, the cooperative institutions are important to be incorporated in the curricula.

Exposure to Administration : Micro enterprise is an individual concept in the primordial phase with centralised administration as the primary phenomenon. Exposure to administrative skills (in local languages) is essential for the entrepreneurs as the owner manager of her business.

Experiences : Experiences in creation of micro enterprises through training reveal interesting facts from these cases:

Case-I : Radhika is an unmarried woman of 29, serving as a part time teacher in a secondary school and trained as a part time teacher. Trained in a six week Entrepreneurship Development Programme she started a small household unit near Cuttack with a meagre investment of Rs. 9000/- in 1989. She produced "Health Food" a mixture made up of wheat/maize/gram powder as a substitute to food drinks like Horlicks. The product was good and somewhat acceptable in the market just to take off for commercial stage but lacked in attractiveness. She contacted a central organisation for product modification. The organisation asked for exorbitant fees.

Case-II : Satyamma, wife of a cobbler near Daspalla traditionally producing shoes and chapples was exposed to Entrepreneurship training for 4 weeks. She learned the skill for manufacturing shoes of new designs but had the shortage of working capital to meet the growing demand. She had already got the funding support under Government sponsored schemes for Rs. 20,000/- and was able to get further funding from financial Institutions subject to the final payment which she could hardly fulfil.

Case-III : Subarna, wife of a Chemical Engineer in Bhubaneswar started her unit in 1985 with an investment of Rs. 35,000 for obtaining silver in electrolytic process from Silver Nitrate (Hyposolution). After the initial growth period the unit met with turbulence and is getting along with the business because of the support of her husband.

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