International Journal Of Advance Research, Ideas And Innovations In Technology

ISSN: 2454-132X
Impact factor: 4.295
(Volume 4, Issue 3)
Available online at: www.ijariit.com

Changing pattern of financial flows in different sectors with change in time

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ABSTRACT

Economic growth of any country depends upon its resources. Its resources could be manpower, investment capacity, infrastructure and natural resources. India having abundance intellectual skill and natural resource, it lacks adequate finds to invest for infrastructural development, which contributes to economic growth of the nation apart from meeting its social obligation. Through FDI and various funds inflow, lead to higher growth rate of few sectors especially communication and service sectors. However, the resource sectors such as agriculture, forestry & Mining, community & social services have recorded constant and slow growth during the period covered in the study. This study is an attempt to explore the reasons for slow growth in resource sectors and to identify the highest & lowest growing sectors with a change in time to analyze the existing economic policy of India. The study uses the objective criteria of profit motives and behavior of market forces including regional imbalances between resource and market region.

Keywords: *Foreign direct investment, Financial investment institutions, Economic reforms, Economic growth, Development.*

1. INTRODUCTION

1.1. Importance of this study

India being a developing country with the major population living in the rural area is mainly dependent upon agriculture and low profile retail business. Very less population of the rural area enjoys the standard living conditions. This population solely depends upon the assistance provided by the governments through different social schemes in forms of subsidies, loan and various poverty eradication schemes to meet their short term and long term requirements, which includes health, education, food, shelter, and employment. Central Government, as well as State governments, have to borrow fund from foreign agencies and private investors through FDI to meet these responsibilities. Simultaneously, such borrowings are also required for the overall infrastructural development of the Indian economy including, industrialization and urbanization for better employment and economic growth. However, investors have their own objective of profit motive security and consistency in business. It's constitutional responsibility of the Government to implement certain schemes for social welfare, removal of regional disparities, agricultural reforms, subsidies and enhancement of living standard of the poor and barefoot population. Hence, Government is burdened with huge payment against subsidies and social development schemes, which does not directly contribute to GDP of the country and Government of India to pay a huge amount in the form of interest on such borrowing. The study reveals growth trend in the service sector is high while agriculture and industrial sector has recorded slow and constant growth. It is required for efficiency measurement in terms of fund allocation in various sectors and regions and proportionate sectoral and regional growth with a change in time.

Gupta (1973) studying the role of the public sector in reducing the regional income disparity in the Five Year Plans suggests that the public sector investment activities over the period 1950-66 have contributed in reducing the spatial income disparity in the country. The public sector net investment constituted nearly 70 per cent of the total net investment over the Fourth Plan period. Hence, the public sector influences in reducing regional income disparity were notable

Dr. D.R. Gadgil (1969), Deputy Chairman of the Planning Commission of India (During Fourth Five Year Plan), evolved a formula for determining the allocation of central assistance for state plans in India, which is known as Gadgil Formula. It was adopted for distribution of plan assistance during the 4th and 5th Five Year Plans in India. The revised Gadgil-Mukherjee formula was used for distribution of NCA among the States (except special category States). The Criterion of Gadgil Mukherjee formula was based on weight age system on various factors Population, per capita income for states, performance, special problem, Income distance, tax Effort and Fiscal discipline.

1.2. The objective of this study:

The main objective of the study is to analyze the changing pattern of financial flows in different sectors and regions with a change in time.

- To identify the highest & lowest growing sectors and to analyze the sectoral growth in GDP.
- To analyze the impact of financial flows on sectoral growth and their ranking.

1.3. Statement of the Problem:

The present study is an attempt to assess the sectoral financial flow and its impact on growth in resource sectors with a change in time.

1.4. Methodology Used: Efficiency output measurement by using Finance ratio.

2. DATA COLLECTION

(a) **Fund Allocation:** (1991-2011):- Fund allocation to various sectors through means of planned fund allocation by the competent government(s). Financial output Ratio, Measurement of resource efficiency.

(b) **GDP Growth** (1991-2011):- (GDP at factor Cost by Industry of Origin): Ratio analysis for each year for each sector. Financial output Ratio, Measurement of resource efficiency.

Table: Fund Allocation & GDP Growth (Figure in Crore)

Period/Sector	**1991-92**		**2001-02**		**2011-12**	
Fund Allocated/growth recorded	**Fund Allocated**	**Growth Recorded**	**Fund Allocated**	**Growth Recorded**	**Fund Allocated**	**Growth Recorded**
Agriculture forestry& fishing mining and quarrying	195454	438685	546674	624923	1721814	864557
Manufacturing, construction, electricity, gas and water	140700	325150	497578	585971	2061650	1369932
Trade, hotels Transport & Communication	115570	243178	491952	552118	2072272	1402261
Financing, Insurance, Real Estate & Business Service	78904	171956	321543	359684	1381524	945534
Community, Social & Personnel services	81366	185232	317513	352267	1154431	665246

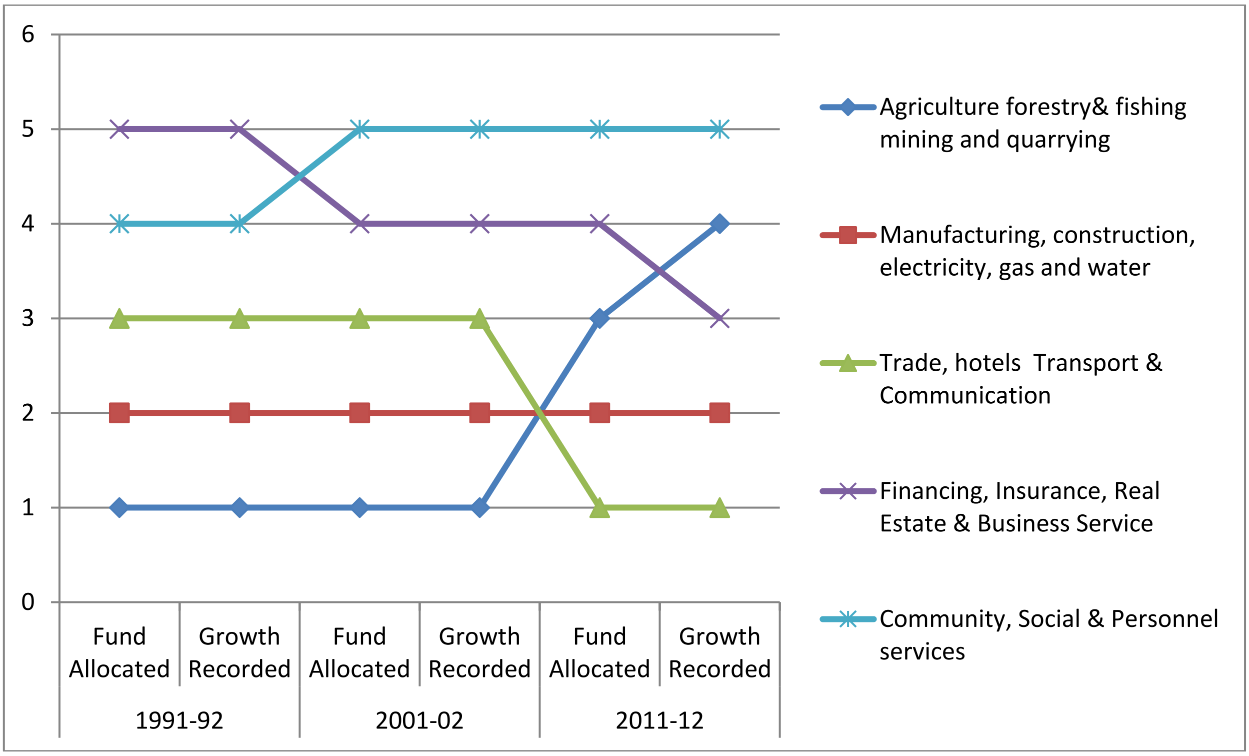
*Source- Economic Survey Report 2013-14 Statistical Report

3. ANALYSIS OF FUND FLOW, GDP, AND SHIFT IN TREND

Above table indicates that growth percentage and fund allocation declined in Agriculture, fishing and mining, and Community, social & Personnel services during 2011 compared to 1991 & 2001. It is very much clear that, there is fund shifting from one sector to another sector with a change in time, which has directly or indirectly affected the growth in agriculture and social sectors. While agriculture was placed at 1^{st} place for fund allocation during 1991-92, it slipped to the third position in 2011-12. Similarly, Community and social services, which was at a 4^{th} place for fund allocation during 1991-12, shifted to 5^{th} and last place in 2011-12. These shifts in fund allocation have affected the growth of agriculture, fishing and mining, and Community, social & personnel services sectors. Further, it is also seen that Trade has recorded highest growth in 2011-12 from last position (5^{th} position) in 1991-92 to 1^{st} position, though, fund allocation shifted 2 place, which clearly, indicates that efficiency in trade sector has taken lead during the period i.e. its efficiency was recorded highest among 5 sectors selected in study. Another side, fund allocation in social sector has shifted from 4^{th} place in 1991 to 5^{th} place, where as growth rate has dropped from 2^{nd} position to 5^{th} position i.e. drop in growth is higher than the shift in fund allocation, indicates improper implementation application of fund. It is also seen that community, social and personal services has recorded least growth from 1991 to 2011. However, finance and manufacturing sector have maintained its constant growth rate and efficiency throughout the period selected for the study. The above data were also analyzed with respect to their position of fund allocation versus growth in 1991-92 and in subsequent years.

3.1 Graphical representation of Position of Fund Allocation, GDP recorded and Shift in Trend Analysis:

The graphical representation shows that Manufacturing, construction, electricity, gas and water sector maintained the same position throughout the period covered in the study. However, Agriculture, forestry, fishing, mining, and quarrying has recorded largest fall in fund allocation directly affecting the growth in this sector.



3.2 Aggregate:

a) Agriculture, forestry & fishing, mining, and quarrying have recorded large downward shift in fund allocation and accordingly fall in its growth were recorded. Further, the decline in growth during 2011-12 is disproportionate to the fund allocation, which indicates improper fund utilization and policy implementation.

b) The trend in Community, Social & Personnel services sector has also shown that growth and fund allocation ratio recorded in 1991-92 (GDP/Fund allocation) was 2.28 times, which falls down to 1.11 times during 2001-02, though fund allocation was increased by 3.9 times. Further, during 2011-12, the growth to fund ratio was recorded as low as 0.58 times with fund allocation by 3.63 times more than 2001-02. These observations indicate that, in spite of sufficient fund allocation in these sectors, growth recorded was negative, which shows defective domestic economic policy.

c) Our financial & economy policy is more dependent on the foreign fund, so it formulates its policy as per requirement of foreign investors. As already it is stated in the introduction that external investors are profit oriented and they take less security risk for survival. Even fund allocation in few sectors have increased but growth could not pick up in the same proportionate, shows that there is a need to redefine the existing policy at gross root, so as the backward resource sectors such as Agriculture, forestry & fishing, mining and quarrying Community, Social & Personnel services sector and industries gains the higher economic growth.

4. SUMMARY AND CONCLUSIONS

Above analysis reveals that, policy should be centered around for; Capacity building, Investors should be motivated by providing more financial support and to be encouraged to invest in resource sectors such as Agriculture, forestry & fishing, mining and quarrying Community, Social & Personnel services sector and industries etc. The policy also should support capacity utilization such as- skilled manpower resource, natural resources etc. There is no vertical integrity in industrialization. It is also suggested that efficiency output is regularly monitored and analyzed from time to time. Public finance policy also needs to be modified and planning strategy for infrastructure and social welfare required to be analyzed for better efficiency output in backward sectors & regions. This will further reduce the imbalances between sectors and intra-region.

This Research has focused on the fund flow in different sectors & region from the government, international agencies such as World Bank and IMF including FDI. It has also included the impact of the present structure of fund distribution in development of various infrastructure sectors and removal of disparity in regional growth. It would be interesting to explore whether the relationships between Capital flow, trade, economic growth, Infrastructural Development and financial crisis varied systematically across different products and sectors. For instance, products that enjoyed a comparative advantage versus those suffered a comparative disadvantage. Another possible direction of study is to assess the effects of economic structures and government policies on acquiring of foreign funds from private investors interested in investing in India. It is proposed to have further more studies on the impact of Foreign Direct Investments in resource sectors with a change in policy & time, identify the backward sectors & regions, analyze the drawback of policy for the achievement of the desired level of growth.

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