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Message

Editor in Chief / Managing Editor

Dear Academicians & Research Scholars,

Our referred an international research journal which is listing with the Global Impact Factor organization belongs to Australia. The motive of the "Journal of Management Value & Ethics" is to publish worthy and original research papers after double blind peer review process. There is no doubt that today we are spreading our recognition an international floor. During the last five years of our journey, you can see that there are so many research papers, case studies, book reviews coming from across the world, in the field of management. Many academicians, research scholars & students have approached from different countries like USA, Thailand, Indonesia, Saudi Arabia, Iran, Spain, Nigeria, Kenya, Nepal, Pakistan, Sri Lanka, Uzbekistan to publish their research work in our esteemed International research Journal. We have considered most of them to publish after peer blind review process. We have also published many research papers from different management institutes of our country and they too are sending the same regularly for publication in our upcoming issues. In addition to, it, there are many academicians, research scholars and institutes subscribing for our journal for reading by students and faculties. There are so many academicians who are approaching for being associated with our editorial & advisory board or as a review expert. We have selected some of them from foreign countries like USA, Nigeria, Uzbekistan and Sri Lanka, Nepal. The standard of our all research papers like empirical, conceptual, book review and case study is increasing the popularity of this Journal day by day. Motivational quotations between the pages also inspiring our readers. Our renowned editorial & advisory board is a real mile stone of our success. We thank our board members and editorial team, who are experts in different fields and contributing their valuable experience with us.

In the today's life, nothing is possible without research. Because, research is bringing revolutionary change in the world. Research based study always support academicians & scholars to upgrade their innovative skill and academic profile as per UGC and AICTE norms. I would also like to request those, who are interested to get their research papers published in the field of Retail, Tourism, Hospitality, Event Management, Import and export, HRM, Finance, Marketing, Advertising, Accounting, Economics, Aviation, and IT etc. to send their research papers through email.

With best wishes to all

Dr. P. S. Bhadouria

DIVERSIFICATION ACTIVITY OF INDUSTRIAL ENTERPRISES: NEW CHALLENGES AND PERSPECTIVES FOR THE LIGHT INDUSTRY IN UZBEKISTAN

Sultanov A.Akbar[1]

ABSTRACT

According to the international experiences, competitiveness and excess to the global markets, diversification of the economy, ensuring the establishment of new enterprises focusing on high-tech technologies, accelerating of modernization and technical upgrading processes can be carried out.

This article will deal with the scientific and methodological aspects of the management of diversification textile industry production and their specific features. Elaborated scientific recommendations of increasing the production potential of the textile industry and improve the management mechanisms on it.

***Key words**: modernization, diversification, strategic management, competitiveness, structural changes, industrial development, textile enterprises.*

Introduction

Today, the experiences of the developed and developing countries stated that the competitiveness and the excess to the global market can be achievable through the economic reforms, its structural changes and diversification process, developing industrial manufacturing and establishing new enterprises with high-tech technologies, accelerating modernization and technological upgrading processes.

In this sense, there is necessary to continue the economic development policies which are stated as one of the main priorities of the economy regardless for the implementation of its long-term strategic objectives, strengthening its competitiveness and the position in the global market, developing manufacturing industry and establishing new enterprises with high-tech technologies.

The main purpose of the Presidential Decree "On industrial development priorities of Uzbekistan for 2011-2015" dated 15 December, 2010 was sustained, rapid and balanced

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development and diversification of the industry, structural reforms aimed to improve the export potential, deepening the modernization and technological upgrading processes of enterprises aimed to improving the competitiveness and their effectiveness. In particular, due to the results of the measures there was aimed to increase the share of industrial production in GDP from 24.1% in 2011 to 28% in 2015, its export volume from 42.3% to 63.2%.

Research methodology

Today, in the field of textile and light industry continuing feasible work under the leadership of President of the country, Islam Karimov which are constituting well operated new capacities equipped by modern technologies, renovation and modernization of existing enterprises, improving the legal framework of the industry, develop and improve the export potential of its extensive network-scale.

Uzbekistan's light industry has experience on processing of cotton fiber. In particular, the Great Silk Road passed through the Uzbekistan which is lead to the Uzbek craftsmen's products are popular in many countries around the world.

Today, taking into account the growing demand for light industry Uzbekistan's light industry has a big opportunity not only as a supplier of cotton fiber to the global market, but also as an exporter of finished products as well.

Year by year there was growing interest by foreign investors in order to establish joint ventures companies for the processing of cotton fiber and finished consumer goods. Organization and operation of joint ventures has led to positive results and this experience will be an integral part of the industry in the future as well. In addition, there were creating favorable conditions for attracting foreign investments is an important factor.

For further development of the light industry there were considering to create mobile basis approach new enterprises with the processing capacity 500 thousand tons of cotton fiber per year, by improving the competitiveness and the design of the products, focusing on for quick changing the structure and the quality of the product regardless the demand side, modernizing and reconstructing current facilities.

The creation of a favorable investment and business environment is contributing for the sustainable development of the textile and light industry. The last two Presidential decrees dated on April 7, 2014 "On additional measures for further improving the investment climate and business environment in the Republic of Uzbekistan" and dated on March 4, 2015 "On program measures of modernization, diversification and structural changes of production in 2015-2019 in Uzbekistan" are an important factor on this approach. Based on this program, there were considering implementation of 846 investment projects in a total amount of more than 40.8 billion US dollars, from that 77 projects in amount of more than 900.0 million US dollars is planned to realize in the textile industry. The implementation of this program will contribute further development of the export potential of the country in light industry (Table 1).

Table 1. Program measures of modernization, diversification and structural changes of production in 2015-2019 in Uzbekistan[2]

Million US dolar.

Direction of the investment	Total value of the projects	Own funds	Fund for Reconstruction and Development	Commercial bank loans	Foreign investments and loans
Defined and agreed financial sources, implementation of investment projects					
New construction	13676,4	2307,3	2492,3	1997,5	6879,4
Modernization	4486,9	2195,7	592,2	859,0	840,0
Other directions	1476,7	104,6	10,6	34,2	1027,3
Total:	**19640,0**	**4907,6**	**3095,1**	**2890,7**	**8746,6**
Initially designed and prospective investment projects by attracting foreign investment					
New construction	17711,0				12806,1
Modernization	2258,0				1203,0
Other directions	200,0				200,0
Total:	**21168,9**				**14210,0**
All:	**40808,9**	**17852,3**			**22956,6**

In 2014 there were realized 17 projects in the amount of 21.4 bln. dollar in "Uzbekyengilsanoat" system. As a result, the production capacity increased:

- by yarn and packaging - 125.2 thous. tons of yarn;
- by textiles - 14.2 mln. sq.m fabrics;
- by hosiery - 23.3 thous. tons of knitted fabrics;
- 28.5 mln. pairs of socks;
- by sewing - 29.7 mln. sewing items;
- by silk - the amount of 410 tons of raw silk.

[2] Author's calculation, based on the Presidential Decree dated March 4, 2015 "On program measures of modernization, diversification and structural changes in 2015-2019 in Uzbekistan".

The measures are continuing by SC "Uzbekengilsanoat" and implemented a new investment projects due to modernization, diversification and structural changes in the field (Figure 1).

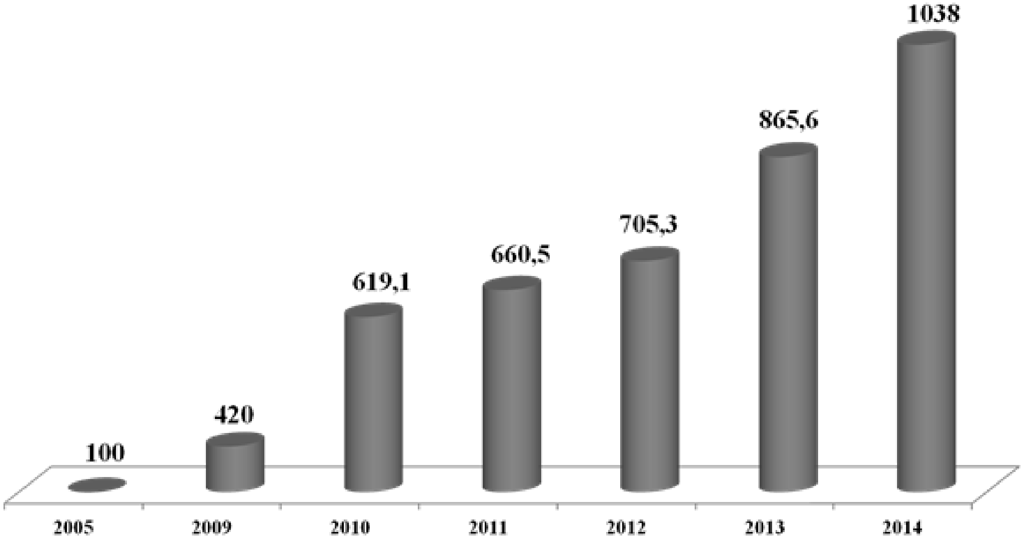

Figure 1. Investment dynamics in the sphere of "Uzbekyengilsanoat" SC during 2005-2014 (mln. US dollars)

Today, the textile and light industry enterprises of Uzbekistan are a highly diversified and operating as a one industrial unit. This unit producing wide range of high quality products, such as yarn, fabrics, sewing and knitting products, clothes and semi-clothes. These products focused on not only to the domestic market, but also exporting in Europe, America, Asia and African countries as well.

On a regular basis analyzes the company's export potential, and as a result, the exports ranges are growing from year to year. The parameters of the quality of the products are being improved and reaching to the level of international standards ISO-9000. Marketing and export services in this sphere promoting textile productions in the international market, observing commercial offers of the international partners and providing analytical information (signal) to the producers about the changes of market prices for the textile products in order to react in appropriate way.

In addition, there was implemented the program measures which are carried out by the Decree of the President dated on May 28, 2008 "On localization program of the finished products, components and other materials in 2008-2010 on the basis of industrial cooperation". Under this program there were realized 15 investment projects in total amount

15.1 billion UZS. However according to the Presidential Decree dated on November 12, 2007 "On further strengthening internal and inter-sectoral industrial cooperation" there was realizing mutual cooperation among the industrial manufacturers in order to support the textile enterprises by providing them necessary facilities.

A review of international scientific research on the topic of the article.

Scientific researches on diversification activity of industrial enterprises are held in the world's leading research centers and institutions of higher education, including Harvard University (USA), Indiana University (USA), Toyo University (Japan), Kyoto University (Japan), Adam Smith Institute (UK), Institute for European Environmental Policy (UK), Institute of Economic Affairs (UK), The Halle Institute of Economic Research (Germany), The Hamburg Institute of International Economics (Germany), and International Leontief Centre, Institute of Economics and Industrial Engineering (Russia), and others.

Nowadays, in the world researches on diversification activity of industrial enterprises the priority is given to the systematic study of factors of efficiency of economic growth, mechanisms and an effective management of social and economic processes, analysis and evaluation of disparate managed and self-organizing factors of competitiveness.

Theoretical studies of the essence of diversification activity were presented in researches of classics of economics: J. Stewart, J. S. Mill, W. Senior, Jean Baptiste Say, T. Malthus, A. Marshall, Adam Smith, David Ricardo, E. Heckscher and others.

Issues of diversification activity of industrial enterprises have been studied by J.B. Boudevill, N. Groszhan, P. Krugman, A. Lesh, B.O. Lundval, J. Mantsinen, E.Meyya, F. Perry, P. Romero, E. Reinert, J. Richardson, J. Freedman, C. Freeman, P. Hagget, T. Hagerstrand, M.Porter, J.Schumpeter and others.

Background of study in Uzbekistan

In Uzbekistan the study on the diversification activity of industrial enterprises level is a relatively new area, and therefore the first attempts to study the problem there were made. The achieved results of scientists of the national school, such as S.Gulyamov, B.Khodiev, M.Bolrabaev, Sh.Zaynutdinov, Y.Abdullaev, K.Abirkulov, N.Aimbetov, T.M.Akhmedov, Sh. Imamov, A.M. Kadyrov, A.A.Kayumov, B.Ruzmetov, A.M.Sadykov, A. Soliev, F.T. Egamberdiev and others are of great importance for the study of the diversification activity of industrial enterprises of Uzbekistan. It provides a basis for further research in the direction of improving the methodological basis for the analysis of diversification activity of industrial enterprises.

Analysis and interpretation.

The data shows that the total volume of the exports is growing. In particular, this growth reached in its highest level in 2007 - $400.6 million. However, due to global financial and economic crisis which was happened in 2008, the growth level decreased by the amount of 375.3 million US dollar. But regardless to the quick operational measures which was taken by the government of the republic this indicator grew up to 827.3 million US dollar in 2013.

There was pretty deserve some measures which is considering network project implementation in order to improve the export potential of the industry (Table 2).

Table 2. The growing export potential of the "Uzbekyengilsanoat" due to implementation of investment projects on modernization and technological re-equipment, million US dollar[3]

Title of the project	Value (planned)	Source of finance			Export potential	
		Own funds	Loans of the commercial banks	FDI and loans	Value	Share of the project value, %
“Nanyang Red Cotton Angel Textile” PC	9,0	-	-	9,0	7,0	77,8
“Forij textil” JC	4,77	0,07	-	4,7	3,0	62,9
“Bultekst Evrostar” PC	0,32	-	-	0,32	1,0	312,5
“Elnur & Ruslan textile” PC	0,52	-	-	0,52	0,7	134,6
“Altentekst” PC	0,15	-	-	0,15	0,8	533,3
“Nafis libos” LLC	1,6	0,3	1,3	-	1,8	112,5
“BF production” PC	1,6	0,4	-	1,2	2,0	125,0
“Bayteks Tidjaret” PC (increasing capacity)	6,63	-	-	6,63	8,0	120,7
“Cottontextile” JV	1,0	1,0	-	-	2,0	200,0

[3] Formed based on the reports of the “Uzbekyengilsanoat” stock company.

"Bogotextile" JV (increasing capacity)	0,72	0,72	-	-	1,5	208,3
Total:	**26,58**	**2,49**	**1,3**	**22,52**	**27,3**	**102,7**

As we can from the table that 84.7% (22.5 million US dollar) from the total value of the investment projects is a foreign direct investment and loans, 9.4% (2.59 million US dollar) private funds, 4.9% (1.3 million US dollar) loans of the commercial banks.

Due to lunching new businesses and the expanding the production capacities of the manufacturing the export potential expected to increase for the 27.3 million US dollar or 102.7% compared to the total value of the project.

The main purpose of this program which is approved by the Presidential Decree dated on December 15, 2010 "On industrial development priorities of the Republic of Uzbekistan in 2011-2015" is developing sustainable, rapid and balanced industry, diversification of the main sectors (pillars), deepening the structural reforms aimed at improving the export potential of the field, modernization and technological upgrading of enterprises aimed at improving the competitiveness and effectiveness. For instance, the share of GDP expected to increase from 24.1% in 2011 to 28% in 2015, export volume of the industry form 42.3% in 2011 to 63.2% in 2015[4].

A new type of products which is launched in 2010 was 86 units, 92 units in 2011, while this year has reached - 105. This number is expected to increase another 33 units. Their achievements are also reflected to the share of export potential. For example, if the export volume of the industry was consisted 4.5 bln. US doll in 2010, this amount was reached for about 5.0 bln. US doll. in 2011, and 6.2 bln. US doll. in 2014. Currently, more than 50 types of textile products which are owned by 29 enterprises are producing competent export products and exporting more than 30 countries in the world, including China, South Korea, Russia, India, Germany, the Netherlands, Iran and Australia. Starting from the year 2014 these export geographic areas are widen additionally by the of Japan, Taiwan, Estonia, the United Arab Emirates, Sri Lanka, Azerbaijan, Georgia and others[5].

For many developed countries in the world the textile industry traditionally has been the first manufacturing area. For instance, in France, Germany and the USA the share of the textile products consists about 6-8% in the total volume of industrial production, in Italy this

4 The main indicators of socio-economic development of the Republic of Uzbekistan. - T.: State Statistics Committee, 2000-2014
5 The main indicators of socio-economic development of the Republic of Uzbekistan. - T.: State Statistics Committee, 2000-2014

amount almost doubled - 12%. It means 20% of the total budget and 75-85% of internal market share are forming by the textile industry[6].

Nowadays Uzbekistan transforming from the country who are exporting only cotton raw material to the country who are exporting finished goods. Today, the light and textile industry companies more actively contributing for the growth of the manufacturing process, through modernization and diversification measures have taken in the economy[7].

In general, the specific features of the light industry are global scale of light products and great demand to them. Therefore, the need for additional investments in light industry of the country is growing. Increasing investments in the network is increasing its production capacity. Due to remarkable investments there were more than 65 projects implemented in the industry. More than 100 joint venture companies were established with FDI, including Germany, Switzerland, South Korea, Turkey, the United States, India and Singapore[8].

As a result, domestic consumption of cotton fiber produced in Uzbekistan gradually growing, including by the companies of "Uzbekyengilsanoat" SC (Table 3).

Table 3. The level of processing cotton fiber produced in Uzbekistan by the companies of light and textile industry in 2013-2016[9]

№	Regions	Annual average production value of cotton fiber (thousand ton)	By years for the processing of cotton fiber (%), power	
			2013	2016 (forecast) power
	Total by Uzbekistan	**1095,5**	**44,5**	**79,2**
	including:			
1	Republic of Karakalpakstan	64,9	35,4	55,4
2	Andijon	101,0	83,4	94,7

6 Evans J.R., B.Berman. Marketing. Short translation from the English. - M.: «Economics», 2009. -pp. 114-115.
7 Drucker P. Effective Governance (pp. 94-95): Economic problems and optimal solutions / Trans. Eng. M.Kotelnikova M. 1998. p. 288.
8 Sultanov A.A. Actual problems of economic development in modern conditions// Twentith international Plekhanov read: Thesises. (April 6, 2007) - Moscow – 2007.
9 Data from the State statistical committee of the Republic of Uzbekistan.

3	Bukhara	109,2	38,1	83,8
4	Jizzax	70,2	45,2	78,7
5	Kashkadaryo	142,3	15,8	51,8
6	Navoiy	38,3	39,2	74,8
7	Namangan	77,9	50,9	82,2
8	Samarkand	82,9	16,3	67,8
9	Surkhandaryo	109,5	8,7	20,0
10	Sirdaryo	74,9	19,8	33,1
11	Fargona	73,9	143,1	179,8
12	Khorezm	74,9	35,5	88,4
13	Tashkent	75,5	79,2	155,3

Diversification began to flourish in the middle of the last century. For instance, in the USA, Japan and some Western European countries his area limited with industrial, transportation, construction and financial sectors. Now it's very difficult to imagine that production without diversification. Therefore year-by-year the economy pays special attention to the growing diversification of production in the country. A reform which is carried out "Uzbekyengilsanoat" structure is one of the examples in this direction.

As one of the promising sectors of the economy, currently there were operating more than 300 enterprises. By the end of 2014, industrial production increased by 123% compared to 2013, the volume of consumer goods increased 133.1% due to consistent reforms. In 2014, the company launched production of 32 new products. Disbursed 35 million square meters of cotton fabrics, created 68 new models of sewing and knitted products. The total volume of new products amounted to 140.6 billion soums.

Taking into account movements of trends in the global market, attracting FDI into the sector through the construction of new textile complexes, diversification and structural changes of the economy are continued. Due to structural changes in this sphere there was created more than 2.8 thousand new jobs and realized diversification and modernization projects in the amount of 125.6 million US doll. by 33 textile companies. The results of the research shows that up to the 2014 by the companies of the "Uzbekyengilsanoat" SC there was reached to increase the types of the produced goods in 141 units, types of products (HS code) - 16 units and the total amount of the share of new types of products in the total volume of the produced goods increased 6.8% which is allowed us to achieve the planned level of diversification (Table 4).

Table 4. Assessment indicators of diversification in the system of «Uzbekyengilsanoat»

№	Indicators	Measure unit	2010	2011	2012	2013	2014
1.	Total types of produced products (by HS code) of	Unit	87	99	111	125	141
2.	Total types of finished products (by HS code)	Unit	2	12	12	14	16
3.	Share of new types of products in the total types of produced products	%	2,3	12,1	10,8	11,2	11,3
4.	The total value of the new products	bln. UZS	45,6	67,2	82,3	104,5	125,8
5.	The total value of the total production	bln. UZS	1 169,5	1 508,7	1 643,5	1 744,9	1 862,7

In this regard, the management of industrial enterprises financial and other resources due to diversification of the investment proposals will serve as a strategic balance for the field and allows us to specify (forecast) in advance the economic conditions of the sources and assets of the companies in order to optimize their management control system in the process of diversification.

Conceptual offering on formation of proposal organizational approaches, implementation of the organizational and economic mechanisms, imperative and methodological principles of activity of enterprises and economic entities while interacting with the diversification process will allow alternative approaches to the determination of management methodology and its development as well.

Emphasizing above mentioned approaches we will try to analyze diversification of enterprises in the textile industry by using the factors (parameters) in order to define the conditions of the entire textile industry, such as labor productivity (y) and the factors that affect it: x1 – assets of labor; x2 – relation (link) of the mechanization level given by the following tables:

Years, *n*	***Y***	x_1	x_2
2005	13,08	9,12	85,6
2006	11,92	9,76	86,3
2007	14,12	7,71	89,7
2008	15,29	8,40	94,5
2009	16,46	8,69	96,13
2010	16,93	8,84	97,47
2011	17,59	8,98	98,8
2012	18,40	10,1	99,4
2013	18,50	10,8	99,5
2014	18,40	10,9	99,6
$\sum$	**358,86**	**213,79**	**2265,19**

Amounts in this series are:

$$\sum y = 358{,}86;\ \sum x_1 = 213{,}79;\ \sum x_2 = 2265{,}19;\ \sum yx_1 = 3182{,}84;\ \sum yx_2 = 33162{,}8;$$

$$\sum x_1 x_2 = 19645{,}4;\ \sum x_1^2 = 2019{,}62;\ \sum x_2^2 = 226657{,}4;$$

$$\bar{x}_1 = \frac{\sum x_1}{25} = \frac{213{,}79}{25} = 8{,}5516;\ \bar{x}_2 = \frac{\sum x_2}{25} = \frac{2265{,}19}{25} = 90{,}6076;$$

$$\bar{y} = \frac{\sum y}{25} = \frac{358{,}86}{25} = 14{,}3544$$

$$\sum (y - \bar{y})^2 = 294{,}62;\ \sum (x_1 - \bar{x}_1)^2 = 67{,}395;\ \sum (x_2 - \bar{x}_2)^2 = 2053{,}68.$$

Correlation function can be used $y = a_0 + a_1 x_1 + a_2 x_2$. In order to define unknown parameters a_0, a_1, a_2 will form the following equations:

$$\begin{cases} 25a_0 + 213{,}79a_1 + 2265{,}19a_2 = 358{,}86 \\ 213{,}79a_0 + 2019{,}62a_1 + 19645{,}4a_2 = 3182{,}84 \\ 2265{,}19a_0 + 19645{,}4a_1 + 226657{,}4a_2 = 33162{,}8 \end{cases}$$

From this equation we can find:

$$a_0 = 7{,}455;\ a_1 = 0{,}562;\ a_2 = 0{,}023.$$

Thus, the regression equation can be form as following:

$$y = 7{,}455 + 0{,}562x_1 + 0{,}023x_2$$

Now we will define between y, x_1, x_2 factors an average squared deviations and pair correlation coefficients:

$$\sigma_{x_1} = \sqrt{\frac{\sum (x_1 - \bar{x}_1)^2}{25}} = \sqrt{\frac{67,395}{25}} = \sqrt{2,6958} = 1,642;$$

$$\sigma_{x_2} = \sqrt{\frac{\sum (x_2 - \bar{x}_2)^2}{25}} = \sqrt{\frac{2053,68}{25}} = \sqrt{82,1472} = 9,064;$$

$$\sigma_{y} = \sqrt{\frac{\sum (y - \bar{y})^2}{25}} = \sqrt{\frac{294,62}{25}} = \sqrt{11,7848} = 3,433.$$

$$r_{yx_1} = \frac{\overline{x_1 y} - \bar{x}_1 \bar{y}}{\sigma_{x_1} \cdot \sigma_y} = \frac{127,3136 - 8,5516 \cdot 14,3544}{1,642 \cdot 3,433} = 0,81;$$

$$r_{yx_2} = \frac{\overline{x_2 y} - \bar{x}_2 \bar{y}}{\sigma_{x_2} \cdot \sigma_y} = \frac{1326,512 - 90,6076 \cdot 14,3544}{9,064 \cdot 3,433} = 0,83;$$

$$r_{x_1 x_2} = \frac{\overline{x_1 x_2} - \bar{x}_1 \bar{x}_2}{\sigma_{x_1} \cdot \sigma_{x_2}} = \frac{785,816 - 8,5516 \cdot 90,6076}{1,642 \cdot 9,064} = 0,73.$$

As we can see from the results of the correlation coefficients that there is a direct correlation among labor productivity and factors.

Now we will calculate $\hat{Y}_i = 7,455 + 0,562 x_1^i + 0,023 x_2^i \quad \left(i = \overline{1,25}\right)$:

$$\hat{Y}_1 = 12,72;\ \hat{Y}_2 = 12,52;\ \hat{Y}_3 = 12,74;\ \hat{Y}_4 = 12,91;\ \hat{Y}_5 = 13,32;\ \hat{Y}_6 = 13,68;\ \hat{Y}_7 = 14,16;$$
$$\hat{Y}_8 = 14,54;$$
$$\hat{Y}_9 = 14,92;\ \hat{Y}_{10} = 14,55;\ \hat{Y}_{11} = 13,54;\ \hat{Y}_{12} = 13,85;\ \hat{Y}_{13} = 13,71;\ \hat{Y}_{14} = 14,34;$$
$$\hat{Y}_{15} = 14,23;\ \hat{Y}_{16} = 14,54;\ \hat{Y}_{17} = 14,66;\ \hat{Y}_{18} = 14,72;\ \hat{Y}_{19} = 14,87;\ \hat{Y}_{20} = 15,41;$$
$$\hat{Y}_{21} = 15,97;\ \hat{Y}_{22} = 16,03;$$
$$\hat{Y}_{23} = 15,41;\ \hat{Y}_{24} = 15,81;\ \hat{Y}_{25} = 15,87.$$

The link between the final result and the factors will be define through the set of correlation collection

$$R = R_{x_1 x_2 y} = \sqrt{\frac{r_{x_1 y}^2 + r_{x_2 y}^2 - 2 \cdot r_{x_1 y} \cdot r_{x_2 y} \cdot r_{x_1 x_2}}{1 - r_{x_1 x_2}^2}}$$

In our case:

$$R = \sqrt{\frac{(0{,}81)^2 + (0{,}83)^2 - 2 \times 0{,}81 \times 0{,}83 \times 0{,}73}{1 - (0{,}73)^2}} = \sqrt{\frac{1{,}3450 - 0{,}981558}{0{,}4671}} = \sqrt{0{,}7780817} = 0{,}882.$$

So, there is also a good relationship between labor productivity (final result), and the factors.

Now we will try to define elasticity coefficients by increasing 1% one factors impact how many percentage the final indicator will change:

$$Э_{x_1} = a_1 \times \frac{\bar{x}_1}{\bar{y}} = 0{,}562 \times \frac{8{,}5516}{14{,}3544} = 0{,}3348;$$
$$Э_{x_2} = a_2 \times \frac{\bar{x}_2}{\bar{y}} = 0{,}023 \times \frac{90{,}6076}{14{,}3544} = 0{,}1452.$$

In order to check the regression equation we will use Fisher's F-criteria and and Student's (Gosset) t- criteria.

We have collection of the correlation coefficient R = 0.882; the number of observations n = 25; number of factors k = 3.

Fisher's F-criteria:

$$F = \frac{R^2 \times (n-k)}{(1-R^2) \times (n-1)} = \frac{(0{,}882)^2 \times (25-3)}{\left[1-(0{,}882)^2\right] \times (25-1)} = \frac{0{,}777924 \times 22}{0{,}222076 \times 24} = \frac{17{,}114328}{5{,}329824} = 3{,}211.$$

Student's (Gosset) t- criteria

$$t = \frac{R \times \sqrt{n-k-1}}{1-R^2} = \frac{0{,}882 \times \sqrt{25-3-1}}{1-(0{,}882)^2} = \frac{0{,}882 \times 4{,}5825756}{0{,}222076} = 18{,}2.$$

In order to define dynamic autocorrelation we will use Durbin-Watson formula:

$$DW = \frac{\sum (y-\bar{y})^2}{\sum y^2} = \frac{294{,}625}{6056{,}16} = 0{,}0486.$$

The correlation error coefficient $S_{xy} = \frac{1-r_{xy}^2}{\sqrt{n-1}}$ will be define by the following formula:

$$S_{x_1y} = \frac{1-r_{x_1y}^2}{\sqrt{n-1}} = \frac{1-0{,}6593}{\sqrt{25-1}} = \frac{0{,}3407}{4{,}8989} = 0{,}069;$$
$$S_{x_2y} = \frac{1-r_{x_2y}^2}{\sqrt{n-1}} = \frac{1-0{,}6955}{\sqrt{25-1}} = \frac{0{,}3044}{4{,}8989} = 0{,}062.$$

In order to achieve these results our priorities should be given to the development of modern textile complexes which are focused on final production procedure and their exports. This, in turn, gives us wide opportunity to increase the volume of the processing of cotton fiber more than 2 times, yarn production by 2.6 times, finished knitting and sewing - 3 times, and the export volume of the textile industry products by 2 times.

Conclusion

The diversification of industrial production in Uzbekistan is not targeted aim advanced, but the elimination of uneven development of industrial sectors, effectively re-distribution of the capital (assets) due to the decline profitability of the traditional production areas, introduction of R&D proposal for the development of the stability of the economic and financial conditions of the industrial enterprises, increasing their profits, supporting competitiveness of industrial products in the international market. In order to achieve for this goals we need to use the ratio of economic and administrative methods reasonably for the implementation of the diversification process.

Diversification of textile enterprises is also mean to increase the range of products and services. In this regard, the company does not have to engage in various spheres of activity. In our case it must improve the types of textile products manufactured within the company. In the open market relations it is highly risqué for textile companies to specialize only in one type of production. Any negative changes in the market can have a significant impact on whole operating activities.

According to this, companies have to change their traditional operation way based on the growing demand for the new products and an increase its production at the expense of the market. In such a case, reduction of the demand or economic losses for one product will subsidies by rising demand for another products or increasing its prices as well.

Recommendations

In our opinion we have to pay serious attention in order to match for the international quality standards and technical parameters of our producing textile products, and also match for the requirements of the ecological legislation in order to implement and elaborate investment projects.

Furthermore, in order to reach for the forecasting indicators we have to elaborate producing strategies which are leads to catch up international standards and exportable products, improving the textile industry infrastructures, attracting high-tech innovative technologies and modules which can provide competitiveness of the textile industry in the global market.

In our opinion, industry is one of the key drivers of the competitiveness of the national economy. In this regard, due to diversification base there are necessary to implement the following measures in order to improve the competitiveness of the industry and its sustainable development:

- reducing the production cost by improving the use of technological parameters and decreasing costs of the energy resources and raw materials by 10-15%. In 2015, the share of the energy costs in the industry must be reduced at least 30%;
- increasing the labor productivity by 6-7% per year for the whole industry by improving the use of production capacities, reducing non-production costs and optimizing the number of employees;
- renewing and upgrading the technological facilities in large enterprises within in industry, modernization of production capacity and introduction of modern technologies;
- focusing on innovative way of processing industrial raw materials on the base of diversification traditional export sectors (oil and gas industry, ferrous metallurgy, processing of agricultural products, including cotton);
- establishing high-tech innovation fund in order to finance investment project by attracting small businesses and private entrepreneurs;
- creating innovative and effective international cooperation mechanisms in order to attract FDI and support the export of high-tech products;
- improving the marketing research proposals within industry and combined industries by studying their local an global market segments;
- monitoring scale of demand for various goods and services in prospects, reacting for the market "signals" in regular basis, organizing monitor process in each level of their technical, economic and operational requirements (internal and external);
- creation of legal mechanisms of international cooperation in the field of technology transfer;
- improving the custom administration procedures and legislation in order to encourage production of high-tech products;
- improving the effectiveness of financial activities of the enterprises: increasing the level of qualification of Financial managers and CEO in the structure of industrial enterprises.
- The strategic industrial-innovative development aim of the Republic of Uzbekistan is to modernize and diversify the economy, producing the competitive production of goods and exports based on the creation of conditions for the implementation of this strategic goals of the country.

- For this reason, there is a requirement to continue policy measures which is dedicated as one of the main priorities of economic development of the country is to implement long-term strategic objectives, to ensure its competitiveness in the globe and deepening the structural changes based on the high-tech technological process and modernization.

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ISLAMIC BANKING SYSTEM FOSTERS ETHICAL AND MORAL VALUES- A STUDY ON CONCEPTUAL UNDERSTANDING OF ISLAMIC BANKING SYSTEM.

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ABSTRACT

Islamic banking is known for its integration of ethical and moral values within its banking operations. It is evident that Islamic finance was practiced predominantly in the Muslim world throughout the middle ages, nurturing trade and business activities. In the present times, there seems to be enough curiosity among the conventional institutions and public to understand the functioning of Islamic banking activities. Existence of ethical businesses in the society is essential as unethical practices of the businesses will create social evils and unrest in the society. The social evils can be eradicated by the businesses through their ethical practices. One of the serious causes of social evils is through charging of interest on financial transactions. The study firmly states, charging of interest will results into injustice and exploitation of poor. Islamic financial system eliminates the involvement of interest or riba in all its transactions and it has the potentials to eliminate the social evils of the society. In this study the basic principles of Islamic finance and the conceptual understanding of Islamic banking operations are presented comprehensively. This study also provides the growth prospects of Islamic Banking along with the challenges faced by Islamic banking system and suggests recommendations for improving and handling Islamic banking operations.

Key words: *Ethics, Prohibition of Interest, Islamic Finance, and Islamic Banking system.*

The emphasis on ethics and moral values in business and economic affairs is an essential characteristic of Islamic banking. Islamic banking is known for its integration of ethical and moral values within its banking operations. IBP, (2010, p. 14) “the first modern experiment with Islamic banking was undertaken in Egypt under cover, without projecting an Islamic image, for fear of being seen as a manifestation of Islamic fundamentalism which was anathema to the political regime.” In the present times, Islamic banking is considered as a new sensation that has taken many observers by surprise. The financial activities of the Islamic finance is fully governed by the Islamic or Shari’ah rules. The transactions of Islamic banks are without the involvement of any element of interest or riba. This is the main factor that distinguishes Islamic banks from conventional banks (Patrick et al, 2012 p.135).

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An understanding towards Ethics:

Ethics may be defined as the set of moral principles that differentiate what is right from what is wrong. In simple words, it conveys which actions are considered as ethical and which one are unethical. Ethics is a formal human approach as it prescribes what one should do or abstain from doing (Rafik Isaa Beekun, 1997, p.2). Business ethics is defined as the application of moral and ethical standards to business situations. In other words, Business ethics is widely accepted code of conduct of doing business. It is regarded as a study of business situations and activities and decisions where issues of right and wrong are addressed (Andrew and Dirk, 2016, p.5).

Why is ethics essential for business?

Following ethics in business is necessary because ethical choices are unavoidable (Alan, 2001, p.9). It is commonly noticed that, people associate themselves with businesses either as a supplier or customer, as an employee or an employer, as a creditor or investor or in many other ways. The dealings with the businesses in either form are basically on the grounds of personal satisfaction the people have while dealing with the business. Further, people would like to associate themselves as customer, employee, creditor or investor only with those businesses on whom they can repose faith. People would not like to associate with another company or business which is unethical (Madhavan, 2015, p.125). The main aim of businesses may be to make profits, but earnings of profits combined with abiding rules of the society, respecting the law and following the ethical practices is what expected from the businesses, by the people who dwell in the society. Businesses may have their main objective as profit making but it would be unethical if businesses consider profit making as the only objective of the business. Businesses owe to the society for the very basic fact that businesses exists in society. Louis and David, (2010 p.61) opines that, "businesses have a social responsibility to support charitable and social causes in the communities in which they earn profits. Business also must treat customers fairly and protect consumers, upholding their rights to be safe, to be informed, to choose and be heard. Businesses have wide-ranging responsibilities to their workers. They should make sure that the workplace is safe, address quality-of-life, ensure equal opportunity, and prevent sexual harassment or discrimination." Hence, corporations, like individual, have social obligations to behave in an ethical manner (Muhammad Adli Musa, 2011 p. 5).

Competitive advantages of ethical organizations:

An ethical organization attracts high-quality employees and leads to higher levels of employee satisfaction and loyalty. Ethical organizations attract loyalty of customers also. Customers' loyalty generates productivity and cost control. If the pay structure is similar, prospective candidates prefer to join ethical organization rather than unethical organization. Potential suppliers prefer consistency in receiving payments from vendor businesses. The businesses would be in a position to pay the suppliers provided the products are sold on time. Smooth sales are possible only when customers are attracted. If anticipated return on investments is similar from both the ethical and non-ethical organizations, the investors prefer ethical organizations rather than unethical ones (Denis, 2009, p.7-9). It is apparent that, the ethical organization has competitive advantage than the unethical organization as customers, employees, suppliers and investors prefer to associate with ethical organizations, as such organizations follow moral principles and create favorable environment for the long term prosperity of the business. Further, ethical organization has a reputation of dealing fairly and honestly with the general public (Mukesh and Ranju, (2010) p.72).

Essentially, from the above discussions, it is concluded that ethics are vital in all business dealings. Without ethics, neither businesses nor individuals could flourish. Without practicing ethics, businesses could perish and there would be chaos and disorder in the society. Following ethical practices, the business could enjoy society's patronage; high productivity is achieved through ethical practices. Further, ethical practices contribute strong team work. The strong team work would result into strong public image and reputation. Authors of this paper are not with the opinion that, the businesses those that are functioning in the present economic system are unethical in their practices. But the authors, through this paper attempt to offer a suggestion to the readers that, the economic system/businesses will be regarded as completely ethical only when the society is free from the social evils. Essentially, the social evils need to be eradicated and the businesses through their ethical practices can eradicate the social evils of the society. The social evils are injustice and exploitation of poor, nurturing of materialistic society that breed selfish means to acquire wealth, impairment of healthy economic development and disparity of income. The causes of social evils could be many, ***but one of the serious causes is interest (Arabic- Riba)*** which is charged on the financial transactions. Ahmed Dahir, (2015), argues that, "Riba is a type of injustice and exploitation. It guarantees lenders return without involvement in risk. It takes advantages of a man's inferior economic position, breeds hatred, jealousy and ill will towards the rich and finally this behavior kills the spirit of cooperation in the society and discourages people from mercy to each other". When business transactions are performed ethically and when the banks assist businesses in their ethical dealings, there is possibility of eradicating social evils from society.

Rationale behind Prohibition of Interest or Riba in Islamic Finance:

Among the most important reasons that have been emphasized by most Islamic scholars, that may cause social unrest is the 'interest'. The interest or riba contract is deemed to be unjust to the borrower because after raising a loan, a borrower may end up either in earning profits or incurring a loss. In case of loss, in addition to no returns on investment, he has to pay interest on capital to the lender. In spite of the fact that the borrower's business is in loss, the lender has his capital returned as well as his interest. In this context, the interest or riba is unjust. Though the lenders income increases numerically, but it fails to spur growth of social wealth, because the interest-based system which is contrary to Islamic finance has the criteria for distribution of credit or granting loans on borrower's credit worthiness, without a concern for the productivity of the project into which the finances are invested. This may force borrowers to continue to repay loans even when their circumstances are not suitable for making payments. (Brain Kettell, 2011 p. 40-45).

Many individuals opine that capitalism is the best economic system for the contemporary world. This thinking further augmented after the failure of communism and development of capitalism. Even many young thinkers in the Muslim world, believe the modern society cannot exist without charging interest and feels that, economy may collapse with the strict prohibition of interest. The cause for the thoughts is because of the very existence of capitalistic economic system which is part and parcel of the present world. This thought process needs a change; it is invalid to assume that the modern society cannot exist without paying or charging interest on financial transactions. If people are reasoning out that the charging of interest on transactions are essential for the existence of the world's economy, if so, then the 'capitalistic economy' should have been a crises-free economy. The capitalistic economy shouldn't have witnessed the financial crisis that remained from 1929 to 1934. It is evident that, the empire of the capitalistic economy was shaken on 28th October, 1929 as the Wall Street collapsed, the world recognized it as 'Black Monday', and this economic disaster also known as great depression, further stimulated serious thinking on economic matters (Mehboob 2005 p.73-87). Another financial crisis related to the capitalistic economic is the 'Sub-prime crises' which America had witnessed. This had not only triggered financial crisis in America but also had resulted in serious financial implications globally. The sub-prime crisis also known as housing bubble or the mortgage meltdown, that began in 2001 and reached to its peak in 2005. M. Bianco (2008) says that, "A housing bubble is an economic bubble that occurs in local or global real estate markets. It is defined by rapid increases in the valuations of real property until unsustainable levels are reached in relation to incomes and other indicators of affordability." The cause of the sub-prime crisis was because of the expansion of household debt that was financed with mortgaged backed securities (MBS) and collateralized debt collections (CDO). These securities initially offered attractive rates of return due to higher interest rates on the mortgages. However, the massive defaults in mortgages settlements caused by the lower credit quality has resulted into several financial institutions collapsed with the significant disruption in the flow of credit to major businesses and consumers alike and further resulted into severe global recession (Marco, 2017 p.7). The discussion of financial crises in capitalist economy concludes that, capitalist economy may be the popular economy but not the best economic system of the world. It is worth to note that, interest on financial transactions are not only prohibited by Islam but also by all revealed divine religions and also condemned by many famous societal thinkers, considering its severe implications on society.

A financial System should be flawless:

Financial system consist mainly the financial institutions and financial instruments it should be noted that the financial system plays an essential role in the economic growth of a country. The financial system helps in the growth of economies and increase in the standard of living among its citizens. Bharati (2011 p.3) suggests that “A financial system is a complex, well- integrated set of sub-systems of financial institutions, markets, instruments, and services which facilitates the transfer and allocation of funds, efficiently and effectively.” Economic system is a broader concept. It refers to the overall modus operandi of a society. The thought to be applied here is, ***if the financial system stopped working, the impact will be on the whole economy*** and would result into economic crisis which becomes a societal problem. Similarly, ***if the financial system has flaws, its impact will be on society in the form of social evils.*** Hence, it is essential to ensure that the financial system is flawless so that the society is free from evils.

Objectives of the study:

Charging of interest or riba on financial transactions is one of the main causes of all social evils. Therefore, there is an urgent need of a worthy financial system. Islamic financial system eliminates the involvement of interest or riba in all its transactions and consequently has the potential to eliminate the social evils of the society. This paper attempts to highlight the importance of elimination of riba and the consequent social ills associated with it.

Research Methodology:

The paper is focused on providing holistic study on ethical practices of Islamic banking, its growth, future prospects and challenges ahead. Therefore, attempts were made to discuss Islamic terminologies to have a better understanding towards the functioning of Islamic Banking system. Efforts were also made to compare the functioning of conventional banking with Islamic banking to give a better understanding of Islamic banking system. The paper will also provide recommendations about the growth prospects of Islamic Banking and offer suggestions to the institutions to overcome challenges and to draw attention among general public so that they enjoy the benefits of Islamic banking. Data for this study were drawn from a review of **secondary sources**, consisting primarily of management research papers from reputed journals, and media reports related to the study sites.

Basic principles of Islamic Finance:

Islamic finance is based on Shari’ah, an Arabic term that is translated into “Islamic Law”. Islamic finance is referred as a form of ethical investing or ethical lending. Shayerah llias (2008 p.1) conveys that, “Major principles of Shari’ah are a ban on interest, ban on uncertainty, adherence to risk-sharing and profit-sharing, promotion of ethical investments that enhance society, and asset-backing.” The basic principles of Islamic financial system advocates prohibition of interest or riba. The interest amount which is an excess is interpreted as unjustified increase of capital whether charged on loans or sales. As mentioned above, the central tenet of the Islamic system is prohibition of interest or riba. This prohibition is based on social justice, equality, and property rights. Islam encourages the earning of profits but forbids the charging on interest on transactions, because profits determine creation of additional wealth but not interest (Zamir and Abbas, 2011). As interest or riba is prohibited, therefore pure debt security is eliminated from the Islamic financial system. Suppliers of funds are considered as investors instead of creditors. The Islamic financial system encourages business risks sharing in return for share for profits and losses (Hossein et all, 2010 p. 12).

Islamic finance connects a robust link between finance and real economy. Islamic finance mandate asset ownership before transacting. It upholds contractual obligations by emphasizing sanctity of contracts. Islamic finance is known as asset-based financing (Mumtaz et all, 2015 p. 6). The risk involved and the human efforts are more important than the money used in finance. Islamic finance considers money as a potential capital rather than capital. Money becomes capital only when it is invested in the business. Therefore, money advanced to a business as a loan is regarded as debt of the business but not as capital therefore not entitled to returns (Brain Kettell, 2011 p.XX).

Islamic finance prohibits speculative transactions. The speculation prohibited under the Islamic law is not general business speculation, but those speculations such as gambling that is akin with chance rather than productivity (Report emerging Saudi Arabia, 2007 p 195). With the elimination of interest or riba in all financial transactions, Islamic banking or Islamic finance aims at eliminating exploitation and establishing justice by the applications of the Islamic rulings or Shari'ah. Islamic economic principles aim to offer a balance between extreme capitalism and communism (IIBI, London).

Conceptual understanding of Islamic Banking system:

Few essential terminologies of Islamic Banking are discussed below to provide a birds-eye view of the system:

(a) Mudharabah (Profit Sharing)

Mudharabah is an arrangement or agreement between the bank, or a capital provider, and an entrepreneur, whereby the entrepreneur can mobilize the funds of the former for its business activity. In these transactions, the distribution of profits must be pre-determined by the two parties involved. As per Islamic Shari'ah, the amount of profit decided between the parties has to be independent of the amount contributed as capital. The profits are dependent solely on the actual profits earned by the businesses. The motive for profits cannot be a percentage on capital amount is because that would be considered as a fixed return or interest. Further, the Shari'ah does not restrict the proportions of profits to be distributed between the two parties; it is left to the best judgment and free-will of the parties involved in the transaction. Ariff and Iqbal (2011 p. 194) conveys that in Mudharabah or profit sharing model, “parties will share the profits after deducting all the expenses to conduct the business at a pre-agreed ratio. However, in case of loss, it is only the provider of capital who assumes the losses. The entrepreneur does not assume any liability in case of loss because he or she has already provided the expertise without any payment.” Mudarabah is considered as a unique kind of partnership where one partner provides the capital to the other needy (mudarib) for investment in a commercial enterprise. The focus here is on fostering moral values in the business through mutual help.

(b) Musharakah (Joint Venture)

Musharakah in the context of business refers to a joint enterprises arrangement in which parties to the enterprise share profits and loss of the enterprise. Musharakah, in the modern perspective has an excellent alternative to the interest-based economy. Mufti Muhammad Taqi Usmani, (2004 p. 17) defines “Musharakah is a word of Arabic origin which literally means sharing. In the context of business and trade, it means a joint enterprise in which all the partners share the profit and loss of the joint venture. It is an ideal alternative for the interest based financing with far reaching effects on both production and distribution.” The forte of this transaction is that it allows each party to share in profits and risks, instead of charging interest as lender or creditor. In Musharakah transactions the financer or the capital provider will also share losses unlike the conventional lender or creditor.

(c) Musharakah al Mutanaqisa (for home loans)

The purpose of the Islamic banking is similar to the conventional banking, as profits are essential for the growth of any business; Islamic banking institutions also focus on achieving or earning profits. However, the Islamic banking is at core operated according to the Islamic Shari’ah. Islamic banking also inclines towards earning profits but it assertively stresses on earning profits by prohibiting interest (riba). With a focus on both earning profits and serving the society, Islamic banks have applied some innovative approach for home loans called Musharaka al-Mutanaqisa. Alina, (2012) defines “Musharakah Mutanaqisah is the Arabic term for diminishing partnership, which essentially means two or more partners join in capital for a specific business venture, and towards the end of the term of the partnership, one partner gradually acquires the capital shares of the other partner. At the end of the term of the partnership, one of the partners owns the whole shares in the partnership, hence becoming the sole owner of the business venture, while the other owns zero shares in the partnership, hence ending the partnership between the two partners.” Brain Kettell, (2011 p.25) elucidates on the Islamic banking home loans, according to him, “The bank and borrower form a partnership entity, both providing capital at an agreed percentage to purchase the property. The partnership entity then rents out the property to the borrower and charges rent. The bank and the borrower then share the proceeds from this rent based on the current equity share of the partnership. At the same time the borrower in partnership entity also buys the bank’s share of the property at agreed installments until the full equity is transferred to the borrower and the partnership is ended. If default occurs, both the bank and the borrower receive a proportion of the proceeds from the sale of property based on each party's current equity."

(d) Qard Hassan (Good loan)

Qard-Hassan is an interest free loan given by the lender basically for meeting short-term requirements with a focus to help the needy. The borrower of the loan is obligated to repay only the principal amount of the loan. This type of loan does not violate the prohibition of Riba, and also this is only type of loan that does not pay off the lender for the time value of money. Most of the Islamic banks render the service of providing this interest-free loan, so that the needy could overcome their immediate requirements. This is often referred as virtuous loan i.e. the interest free loan extended on good-will basis. Yahia (2010 p.20) edifies that, "The qard Hassan can be a term loan, with a time limit for the money to be paid back- in a flexible and merciful way, depending on the specific situation and needs of the borrowing poor and needy-or, in most cases without a time limit.

Comparison of Conventional and Islamic Banking system

- The functions and operating modes of conventional banks (interest based) is not based on religious laws or guidelines, but those are fully manmade principles. The functions and operating modes of Islamic banks are based on the principles of Islamic Shari'ah (Muhammed Ridwan, 2013 p.20)
- In conventional banking the investor is assured of a predetermined rate of interest (Iqbal and Philip, 2005 p. 28). Islamic banking system promotes risk sharing between provider of capital (investor) and the user of funds (entrepreneur) this is contrary to the conventional banking system (Brian Kettell, 2011, p. XIX).
- Conventional banks aim at maximizing profits, lending money and getting it back with compounding interest. Their intermediation is largely debt-based and allows for risk transfer. The system can be considered unstable because it is dominantly a debt and an interest-based system. (Abdul Azeez et al, 2014 p.17). Whereas participation in partnership business is the fundamental function of the Islamic banks, so that the investors understand the customer's business very well. Islamic banking involves profit and risk sharing which ensures profit is proportional with the risk. Islamic banks intermediation is asset- based and centers on risk sharing. One of the key difference between conventional banks and Islamic banks that Islamic banks does not allow investment in those kind of instruments that have adverse effect on conventional competitors, as those may trigger global crisis. These include toxic assets, derivatives and conventional financial institution securities (Omar and Shahid, 2015 p. 28).

- The conventional bank, maintains relationship with its clients, which is that of creditor and debtors. Jaffer (2012, p.26) says that the "important function of a commercial bank is to grant loans and advances. Such loans and advances are given to members of the public and to the business community at a higher rate of interest than allowed by banks on various deposit accounts. The rate of interest charged on loans and advances varies depending upon the purpose, period and the mode of repayment. The difference between the rate of interest allowed on deposits and the rate charged on the Loans is the main source of a bank's income." Conventional banks aims to increase profits and do not hesitate to grant loans to indebted economic agents, which could result into economic crisis, as this was witnessed with the fall of financial giants like Lehman brothers etc. Muhammad Ayub (2007 p.94) says "The relationship of an Islamic bank with its clients is that of a partner, investor or trader, and not of a creditor or debtor." Islamic banking also aims at making profits but under the strict Islamic instructions. Islamic banking adheres to strict credit rating system and disallows indebted economic agents to avail more debt finance; this is primarily to save the financial and economic enterprises from bankruptcy (Zubair 2016).

III. Growth prospects and Challenges of Islamic Banking:

(a) Growth prospects of Islamic banking

To understand the growth prospectus of Islamic banking, one should look into the statistical reports provided by the "World Islamic Banking Competitiveness Report -WIBCR" and also the statistics provided by some standard institutes as this would give consensus about the developments taking place in Islamic banking. As per the WIBCR, 2013-2014, "Islamic banking assets with commercial banks globally reached US$1.54t in 2012. This includes both pure-play Islamic banks and windows." According to 'The Economist' (2014) Ernst & Young, a consultancy and accounting firm estimates, "Islamic banking assets grew at an annual rate of 17.6% between 2009 and 2013, and will grow by an average of 19.7% a year to 2018."

Islamic banking, also known as participation banking, is progressing promisingly, as per the WIBCR, 2014-2015, "The participation banking industry has gone mainstream in several markets (Saudi Arabia, Kuwait and Bahrain with more than 48.9%, 44.6% and 27.7 % share of markets, respectively) and has considerable progress in a number of emerging markets (Indonesia, Turkey and Pakistan with 43.5%, 18.7 % and 22.0% CAGR, respectively) over 2009-2013". The participation banking is showing promising trend in core Islamic banking markets in comparison to conventional banking. According to WIBCR report, 2014-2015, "On an average, participation banking growth in core markets over 2009-2013 has been 1.9 times higher than that of conventional market. The core Islamic banking markets are in Qatar, Indonesia, Saudi Arabia, Malaysia, UAE, Turkey, Kuwait, Bahrain, Jordon, Bangladesh, Pakistan and Egypt. Gulf Times (2014) reports the statement of Gordon Bennie, MENA

(Middle East and North Africa) Financial Services Leader at Ernst & Young that, "The six rapid-growth markets (RGMs)– Qatar, Indonesia, Saudi Arabia, Malaysia, the UAE and Turkey (QISMUT) – commanded 80% of the international Islamic banking assets at $625bn in 2013. QISMUT Islamic banking assets are expected to continue to grow at a five-year CAGR (compound annual growth rate) of 19% to reach $1.8tn by 2019". According to Ernst & Young, "By 2020, the global Islamic banking industry profit pool is expected to reach US$30.3b". Emirates 24/7 (2015) reports that "In 2014, the Gulf Co-operation Council (GCC) countries added $91 billion in Shari'ah - compliant assets, representing a year-on-year growth of approximately 18 per cent share, despite Turkey losing market share by 0.3 per cent nationally due to political pressure on one of the leading Islamic banking institutions in the country."

According to Robert Abboud, Financial services Advisory Leader, MENA, at Ernst & Young, mentioned in WIBCR report 2016 that the "Participation banking assets with commercial banks in Qatar, Indonesia, Saudi Arabia, Malaysia, UAE and Turkey (QISMUT) are set to cross US$801 billion in 2015 and will represent 80% of the international Participation banking assets."

Islamic banking in many core Islamic banking markets has emerged as a viable alternative to the conventional banking and made significant progress in the banking industry. Islamic finance has become an effective tool for financing development worldwide, including non-Muslim countries. It has the prospects to help address the challenges of ending poverty and enhancing the prosperity. Islamic finance is one of the fastest growing segments of the financial industry. Its activities are not only visible in Islamic countries but are also operational in major developed countries. The non-Muslim countries showing attention in Islamic finance are the UK, Luxembourg, South Africa, Hong Kong etc. Understanding the growth prospectus of Islamic banking, a number of western countries have recently started allowing Islamic banks to operate in their respective dominions. Ananthakrishnan Prasad (IMF, 2015) says "Islamic finance is one of the fastest growing segments of the financial industry, and not just in the Middle East. The United Kingdom has five banks dedicated to Islamic finance, more than 20 banks offering Islamic products, and 25 law firms with Islamic finance units. There is $38 billion in sukuk—the Islamic equivalent of bonds—listed in London, primarily issued by businesses and banks based in the Middle East. And an issue of £200 million worth of sovereign sukuk in June 2014 was the first such offering outside the Islamic world."

(b) **Challenges faced by Islamic Banking System:**

The Islamic banking industry has been trying hard over the last 20 years to at least come closer to conventional banking in its reach to the customers. The major challenge faced by the Islamic banking system is that, there is no central and regulatory body controlling the entire system of Islamic banking. The absence of Shari'ah -compliant legal framework, needed to make interest-free banking acceptable and create sound financial institutions is the major snag behind its low penetration in the financial markets (Dawn, 2016). Resultantly, one will find far less standardization in the products available because of different interpretations between banks and jurisdictions of what is acceptable under sharia law. While conventional banks use approved regulatory standards that banks around the world follow for uniformity and standardization, making it easier for them to expand and conduct operations in different countries, but for Islamic banking, there are no approved standards, for convenience they follow the conventional banking regulations. But because Islamic banking differs from conventional banking, it is difficult for Islamic banks to completely follow these global conventional standards. For instance, the capital structure in Islamic banks is different from that of conventional banks. Default by parties is another complications faced by Islamic banks, as the Islamic banks are prohibited from charging any accrued interest or imposing any penalty. The penalty is charged except when the payments are deliberately delayed. During this delay, the bank's productive capital is tied up in a non-productive assets resulting into losing of revenues (Inwon and Carel, 2014 p.25). Another important point which is to be noted is that the economies of scale are hard to achieve by the Islamic banks as they are much smaller in size, when compared with their conventional counterparts, though expanding rapidly. At times, it was also observed that few operators of Islamic banking deceive customers by charging exorbitant rates under the guise of offering sharia compliant products. This deters the customers from opting Islamic banking services.

Recommendations and Conclusions:

Recommendations:

Steps should be taken by the concerned authorities to develop proper legislation and regulation, as well as the supporting infrastructure, including the necessary skill set required for handling Islamic banking operations (Patrick and Kangni, 2015 p.23). Institutions offering Islamic products shall appoint a counselor from Shari'ah board; this is to ensure that the contracts are not void under Islamic law. Institutions shall ensure that the funds intended for Shari'ah -compatible investments are not mixed with those of non-Islamic investments. The rationale behind this principle is to ensure that Islamic funds do not get mixed with other funds that may be involved with riba, or haram (illegal) activities. In those jurisdictions where Islamic finance is still in the growing stage, regulators and financial institutions should familiarize themselves with the standards set by the AAOIFI- , the Accounting and Auditing Organization for Islamic Financial Institutions and efforts should be made to implement the same. The institutions offering Islamic products shall actively pursue awareness campaigns. For instance, commercial banks should inform depositors (mudarabah) of the profit-and-loss nature of their deposits. In practice, these tasks can be easily accomplished by simply providing self-explanatory brochures to the customers. Awareness of useful information about Islamic banking activities would generate interest among people to deal transactions with Islamic banks (Juan Solé, 2007, 4 -7). Islamic banks shall also initiate the awareness program that emphasizes the essence that beholds the purpose of prohibiting interest in all transactions.

Conclusions:

Without ethics, neither businesses nor individuals could flourish. Therefore, the businesses should be free from spreading social evils. The causes of social evils could be many, but one of the serious causes is interest (Arabic- Riba) which is charged on the financial transactions. Islamic financial system eliminates the involvement of interest or riba in all its transactions and it has the potentials to overcome the social evils of the society.

Islamic finance is one of the fastest growing segments of the financial industry. Its activities are not only visible in Islamic countries but are also operational in major developed countries. But Islamic banks system is facing the major challenge as there is no central and regulatory body controlling the entire system of Islamic banking. Therefore, steps should be taken by the concerned authorities to develop proper legislation and regulation. The institutions offering Islamic products shall actively pursue awareness campaigns about Islamic banking activities as this would generate interest among people to deal transactions with Islamic banks because, Islamic banks with the elimination of interest or riba in all the financial transactions aims at eliminating exploitation and establishing justice.

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THE DIFFUSION OF HUMAN CAPITAL FORMATION IN UZBEKISTAN THE USE OF HUMAN CAPITAL FORMATION IN UZBEKISTAN

Tairov Sanjar[1]

ABSTRACT

The traditional use of the human capital is the inclusion of the qualities that characterize the level of human education. Capital formation is defined as a combination of general education and professional qualifications of the person. Uzbekistan was the first among the CIS countries started to implement social policies on a program basis. In education, development of the industry is based on the National Program for Personnel Training, which aims to bring the quality of the workforce in accordance with the requirements of a market economy, taking into account country-specific demographic.

Keywords: *software, education, capital, undergraduate, graduate, human resources, law, reform, development, professional, higher, secondary, preschool, quality work, a factor worthy and highly professional.*

Introduction

Uzbekistan was the first among the CIS countries started to implement social policies on a program basis. In education, development of the industry is based on the National Program for Personnel Training, which aims to bring the quality of the workforce in accordance with the requirements of a market economy, taking into account country-specific demographic. Activation of the human factor is reflected above all in the sphere of economic development and standards of decent work, to ensure the effective employment of the population and the constant development of the social protection system, in the development of the education system, as well as in the formation of moral values, strengthening the family, home education, physical health of society, preservation of cultural traditions, and others. [10, 171].

All this once again proves the increasing every year the use of human capital in the field of education in our country.

In this regard, it is necessary to pay attention to the origins of the revival of human capital and its contribution to the development of education. Elements of the human capital theory existed since ancient times, when first formed, and knowledge of the education system. In the scientific literature, the concept of human capital (Human Capital) appeared in the publications of the second half of the XX century in the works of American scientists Theodore Schultz economists [11, p.94] and Gary Becker [3, P.89] (1992). For the creation of the foundations of the human capital theory, they were awarded the Nobel Prize in

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economics. Theodore Schultz in 1979 and Gary Becker In 1992, the have made significant contribution to the creation of human capital theory and a native of Russia, Simon (Simon) Smith, who won the Nobel Prize in economics for 1971 [11, S. 96]

Human capital theory is based on the achievements of the institutional theory, neoclassical theory, neo-Keynesianism and other private economic theories. Her appearance was a response to the economic and related sciences in the demand for the real economy and life. There appears to be an in-depth understanding of the role of man and the accumulated results of his intellectual activity on the pace and quality of development of society and economy. The impetus for the creation of human capital theory steel statistics economic growth of developed countries, which exceeded the estimates, based on the account of classical growth factors. Analysis of the actual processes of development and growth in modern conditions and has led to the assertion of human capital as the main factor of the productive and social development of a modern economy and society.

Contribution to the development of the modern theory of human capital have T.Schults, G.Bekker, E.Denison, R.Solou, Dzh.Kendrik 1 , Kuznetsov, S.Fabrikant, I.Fisher, R.Lukas and other economists, sociologists and historians. [10, p.171]

Initially, under the human capital it is understood only a set of investments in people, which increases its ability to work - education and skills. In the future, the concept of human capital has increased significantly. Recent calculations made by the World Bank experts, include it, consumer spending - family expenses for food, clothing, shelter, education, health, culture, and government spending for this purpose. 2 Human Capital - a major factor in the formation and development of innovative economy and the economy knowledge, as the next higher stage of development.

G.Bekker perhaps the first transferred the concept of human capital at the micro level. The human capital of the company he defined as a set of skills, knowledge and human skills. As an investment in them Becker took into account mainly the costs of education and training. Becker estimated the cost-effectiveness of education, especially for the worker. Additional income from the higher education he defined as follows. Of the income of those who graduated from college, he read the income of employees with secondary education. The costs of education were considered as direct costs and opportunity costs - lost income during training. The return on investment in education G. Becker praised as the ratio of revenues to costs, having received about 12 - 14% of annual profits. He introduced the distinction between special and general investment in human. And highlight the particular importance of special education, special knowledge and skills. Special training of employees forms the competitive advantages of the company, specific and significant features of its product and market behavior, ultimately, its know - how, brand image and brand. In special training are interested primarily the firms themselves, and corporations, and they fund it.

He proved, and the politicians and businessmen on an extensive statistical material that education is the foundation for increasing revenue and employees and employers, and the state as a whole. As a result, politicians, financiers, and entrepreneurs began to consider investing in education as a long-term investment, income. Becker in his works considered an employee as a combination of one unit of simple labor, and embodied in a known amount of it human capital. His wages (income) as a combination of the market price of its simple labor and income on investment in human investment. Moreover, the bulk of the income of the employee at Becker estimates and calculations by other researchers, it brings human capital. [10, p.171]

Traditionally, the use of human capital is the inclusion of properties in it, characterizing the level of human education. Capital formation is defined as a combination of general education and professional qualifications of the person. It includes general and professional knowledge, skills, skills learned in schools and the workplace, as well as business and professional quality of people's ability.

In the Republic of Uzbekistan established the legal basis for the formation and development of continuous education - adopted the law "On education", National Program for Training and State National School Education Development Program.

In accordance with Article 41 of the Constitution of the Republic of Uzbekistan all citizens have the right to education. The State guarantees free general education. Schooling shall be under state control. [7, Article 41]

The Law "On Education" Education shall be a priority in the social development of the Republic of Uzbekistan.

In accordance with the Law of the Republic of Uzbekistan "On education" in the framework of the National Training Program in the country step by step the transition to the mandatory 12 years of secondary education, including 9 years of schooling and the subsequent 3 years of secondary special and professional education.

During the period of implementation of the program reviewed and brought into line with current international standards curricula of all levels of education. It implemented a lot of work to prepare and ensure the free access of students to modern textbooks and manuals. Created system of training, retraining and advanced training of teaching staff, promotion of their highly professional work. The national wealth of human capital in developed countries is 70 to 80%.

The Law "On Education" Education shall be a priority in the social development of the Republic of Uzbekistan, as the main factor of the national wealth in the development of the human capital of our country.

The main principles of the state policy in the field of education are:

Humanist and democratic nature of education and upbringing;

continuity and succession of education;

Compulsory general secondary

specialized secondary

vocational education;

Moreover, we face free choice between

specialized secondary

vocational education

academic lyceum

vocational college;

In this way, the secular nature of the education system is connected with general accessibility of education within State educational standards, Unified and differentiated approach to the choice of training programs. This is also encouragement of learning and talent with the combination of state and public administration in the education system.

The right to education is ensured by: the development of public and private educational institutions; organization of training with margin and on the job; Free instruction under State education and training, and paid vocational training at educational establishments on a contract basis; equal rights of graduates of all types of educational institutions for admission to schools next stage; granting rights to citizens who have received education in the family or through self-education, to qualify as external students at accredited educational institutions.

Education is implemented in the following forms: pre-school education; secondary education; specialized secondary and vocational education; higher education; post-graduate education; training and retraining of personnel; non-formal education. [4, Article 225]

The new system of secondary education in the country is aimed at getting the students the knowledge, skills and competencies that will enable them to actively and effectively incorporated into the system of social and labor relations. It occupies a special place in this vocational education system. Uzbekistan is one of the few post-Soviet countries, which not only preserved, but also created a largely new system of secondary specialized vocational education.

Professional colleges are specialized in groups of related occupations (professionals of industries, nurses and others) that allows you to improve the quality of learning, teaching and optimal use of production equipment, rational complete these educational institutions teaching staff.

A characteristic feature of the modern system of secondary specialized vocational education in Uzbekistan - the establishment of close links with economic agents, employers. According to the Regulations on the procedure for the final state certification in professional colleges in the State Final Attestation Commission introduced the representatives of companies, employers, and their number should be at least 40.0% of the total number of the committee members.

In 2014 there were 66 institutions of higher education in Uzbekistan, in which students were enrolled 259.3 thousand. People. Currently, there are 68 institutions of higher education, in which students learn to 261.3 thousand. People.

In 2014, the number of universities was 25, with an enrollment of students of 115.8 thousand. People. Currently, there are 26 universities, which are currently studying students 126.3 thousand. People.

Classifier of education in higher education provides training of bachelors in more than 200 destinations and masters on more than 1,400 majors.

The government is taking drastic policy measures with the aim of raising the professional education to a new level, the formation of a competitive labor market and, ultimately, achieve the optimal balance of labor resources. Over the last 10 years in the system of secondary specialized vocational education trained more than 1 million. Professionally trained specialists and modern thinking of the new formation in more than 100 directions, 265 specialties and 700 professions. [6, 34]

If the purpose of secondary specialized vocational education is the formation of multiple personality, owning advanced employment opportunities on the job specialties, the higher education - training of competent professionals, managers and scientists.

Moreover, if the Bachelor, as the first stage of higher education, preparing of generalists in the direction of professional activity, the master provides for the division on learning objectives in two main ways:

- Heads of public and private sector, the social sector;

- Researchers, scientists, able to organize and manage research and developmental workings.

The researchers concluded that workers with higher levels of education and training takes less the unit cost of the reproduction of their families than others, because they work efficiently. A higher level of human capital accumulation is observed among workers with higher education and higher qualification, which have a high level of income, often participate in training programs, etc. In fact, the accumulation of human capital - it is an investment and the return on them in the human, in his quality of life, in terms of tools and his intellectual labor, living and working environment [9, P.93].

The focus has been and remains on further reforming and improving the education system in Uzbekistan as the main factor of human development. Annual spending on education in Uzbekistan make up about 10-12 percent of GDP, which is almost 2 times higher than the corresponding recommendations of the UNESCO (6-7 per cent) of the size of investment in education, necessary to ensure the sustainable development of the country.

In 2015, were carried out work on the further development and strengthening of material-technical base of the 384 objects in the field of education in the total amount of 423 billion sums, including those built on standard projects 29 new schools, 219 schools reconstructed and repaired 136 schools.

New modern educational building of 2.2 thousand training places built in the Uzbek State University of World Languages, a sports complex, as well as the hotel attracted foreign specialists. The construction of a new school block in Navoi State Mining Institute.

In higher education, implemented a radically new, improved system of regular retraining of the teaching staff of universities. The 15 basic high schools organized retraining and advanced training of management and teaching staff of universities, which have already been retrained about 2.7 thousand teachers.

The reforms in this area are aimed at the formation of an open, efficient and developing continuing education system capable of ensuring the development of society, sustainable economic growth, increase the level and quality of life. As a result of the reforms in this area in 2013. Among the most important ranking of world figures, such as the human development index (HDI 3), the development of the education system in Uzbekistan is estimated to be above average. [5, 15]

Thus, in the structure of human capital is a huge role belongs to the level of education. The level of knowledge as a system characteristic implies a qualitative and quantitative measure of the level of education. His highest rate in the country's economy provides for a broad layer of workers with flexible, independent thinking and behavior that can find application in various fields - from basic research to create new technologies. The use of human capital in the education of Uzbekistan depends on how human capital and how actively invested in its development is complete and has been used successfully.

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ECONOMIC GROWTH AND REVENUE RECEIPT OF UTTAR PRADESH: A UNIT ROOT TEST

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ABSTRACT

The present study aims to detect stationarity in the series of economic growth in terms of state domestic product and various component of revenue receipt of Uttar Pradesh. Data has been utilised from the various issues of State finances from the period 1990-91 to 2012-13. We have applied unit root test on different time series variables like tax revenue, non-tax revenue and total revenue. The data series for economic growth, tax-revenue, non-tax revenue and total revenue are non-statationary at level. Uttar Pradesh experiences lowest growth rate of ***-1.06*** *in* ***1997-98*** *and its highest growth rate of* ***13.44*** *per cent in* ***2012-13****.*

Keywords: *stationarity, non tax revenue, tax revenue, GSDP, unit root test.*

1. Introduction

Uttar Pradesh is a huge state having one-sixth of the population of the nation. By virtue of being the top-ranking state of India in terms of population. However, it is also true that Uttar Pradesh has been lagging behind the other states of the country. Its economic prospect is not very encouraging. Even the role of the state does not seem to be defined with sufficient force and direction. Revenue receipts of U.P is classified into two parts- (a) tax revenue (b) non-tax revenue. Tax revenue is also classified into two parts- (i) revenue from state's own taxes (ii) share in central taxes. **Revenue from State's Own Taxes** such as Agricultural Income Tax, Taxes on Professions, Trades, Callings & Employment, Land Revenue, Stamp Duty and Registration Fee, Urban Immovable Property Tax, Sales Tax (including State sales tax, sales tax on motor spirit and lubricants, surcharge on sales tax, receipts of turnover tax, other receipts), State Excise Duty, Taxes on Motor Vehicles, Taxes on Goods and Passengers, Electricity Duty, Entertainment Tax and Other Taxes (includes taxes on advertisement, betting tax, receipt under the Sugarcane (Regulation) Supply and Purchase Control Act., Taxes on entry of goods into local areas, toll tax etc.). Not all these taxes are levied by each State, however. Also, sometimes one tax is merged into another under one Act. **Share in**

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Central Taxes as determined by the successive Finance Commission for every five years. Before the Eleventh Finance Commission, these included mostly share of Personal Income Tax and Central Excise Duty, but include the entire central tax collection net of cost of collection, excluding those ascribed to State level taxes collected by the Centre in the Union Territories. Non-tax revenue is also classified into two parts- (i) state's own non-tax revenue (ii) central transfer. **State's Own Non Tax Revenue** includes revenue from Interest Receipts, Dividend and Profits, and receipts from (user charges/ prices/ fees) General, Social and Economic Services. **Central Transfers** include transfers from the Centre to the State in form of Grants in Aid. States receive normal Plan transfers through the Planning Commission, grants under the Central Plan/Centrally Sponsored Schemes, grants through the Finance Commission and other (discretionary) grants from central Ministries. Revenue receipts of U.P is classified into two parts- (a) tax revenue (b) non-tax revenue. Tax revenue is also classified into two parts- (i) revenue from state's own taxes (ii) share in central taxes. **Revenue from State's Own Taxes** such as Agricultural Income Tax, Taxes on Professions, Trades, Callings & Employment, Land Revenue, Stamp Duty and Registration Fee, Urban Immovable Property Tax, Sales Tax (including State sales tax, sales tax on motor spirit and lubricants, surcharge on sales tax, receipts of turnover tax, other receipts), State Excise Duty, Taxes on Motor Vehicles, Taxes on Goods and Passengers, Electricity Duty, Entertainment Tax and Other Taxes (includes taxes on advertisement, betting tax, receipt under the Sugarcane (Regulation) Supply and Purchase Control Act., Taxes on entry of goods into local areas, toll tax etc.). Not all these taxes are levied by each State, however. Also, sometimes one tax is merged into another under one Act. **Share in Central Taxes** as determined by the successive Finance Commission for every five years. Before the Eleventh Finance Commission, these included mostly share of Personal Income Tax and Central Excise Duty, but include the entire central tax collection net of cost of collection, excluding those ascribed to State level taxes collected by the Centre in the Union Territories. Non-tax revenue is also classified into two parts- (i) state's own non-tax revenue (ii) central transfer. **State's Own Non Tax Revenue** includes revenue from Interest Receipts, Dividend and Profits, and receipts from (user charges/ prices/ fees) General, Social and Economic Services. **Central Transfers** include transfers from the Centre to the State in form of Grants in Aid. States receive normal Plan transfers through the Planning Commission, grants under the Central Plan/Centrally Sponsored Schemes, grants through the Finance Commission and other (discretionary) grants from central Ministries.

When we are dealing with time series data then it is very essential to test stationarity of data series or variable under consideration. If we are not doing so we might get spurious relation between variables. This paper is mainly focusing on unit root test or stationarity test. If variables under consideration is nonstationary then we have to make them stationary. We have applied unit root test on different time series variables like tax revenue, non-tax revenue and total revenue. We have also focused on computing growth rates of different variables under consideration.

2. Review of the literature-

Several studies on State finances in India have observed that over a long period of time, revenue receipts of the States have generally been lower than their expenditures, leading to high levels of revenue and fiscal deficits. Studies like **Dholakia (2000)**, **Singh (2000), Purohit and Purohit (2009)** found that decline in non-tax revenues was primarily responsible for relative inadequacy of total revenue receipts of the States, and not the tax revenue component of revenue receipts.

Researcher like **Agarwal (2005), Sanker (2002), Raju (2011)**concluded that fiscal scenario in Uttar Pradesh is showing definite signs of Deterioration. Per capita income in the state is not only one of the lowest except Bihar, Assam and Orissa, but the state is growing almost at three-fourths of the rate of growth of the national income. This is primarily because the state is not making efforts to raise more resources. But more importantly the deployment of funds is more staff-oriented than towards productive investment.

Pai, Sharma, Kanungo and Mukherji (2005) concluded that there are political factors which are also responsible for poor economic performance of Uttar Pradesh. This paper describes why UP has lagged behind in specific competitive policies and the compulsions of parliamentary democracy: political parties particularly over the last decade have not taxed any section of the vote bank and have vied with one another in introducing various unproductive but populist measures.

3. Objectives of the study-

The present research work is based on following objectives-

- To examine the trend and composition of economic growth of Uttar Pradesh.
- To analyse the composition and pattern of States' non-tax revenue sources, tax revenue sources and total revenue sources of Uttar Pradesh.
- To analyse stationarity of different series of revenue receipts i.e. Tax revenue, Non Tax revenue, total revenue and GSDP of Uttar Pradesh.

4. Hypothesises-

In order to accomplish the aforesaid objectives, the present study proposes to test the following hypothesises-

- That the economic condition of Uttar Pradesh has improved during the period of study in terms of growth rate,

- That the non-tax revenue resources as well as its components have increased during the period of study.
- That series of Tax and Non Tax revenue of Uttar Pradesh are nonstationary at level.

5. Data and Methodology-

The present research work is based on the secondary data. Data has been utilised from 'State finances: A study of budgets, various issues' for the period 1990-91 to 2012-13.

5.1. Methodology for calculating growth rates at different Year:

Growth rate of different variables can be measured by following methodology-

Where; Gr = growth rate, Y_t = value of particular variable at current year and Y_{t-1} = value of particular variable at previous year

5.2. Methodology for calculating growth rates at period of time:

Growth rate of different variables at given period of point can be measured by the **Log lin model:**

$$\mathbf{LogY_t = b_0 + b_1 t + u_t} \quad \text{.......................................(1)}$$

Where; $\log Y_t$ = log of particular series; b_0 = intercept coefficient; b_1 = growth rate for given period; t = series of time; u_t = error term;

5.3 Methodology for testing unit root –

A stochastic process is said to be stationary if its mean and variance are constant over time and the value of the covariance the two time periods depends only on the distance or gap or lag between the two time periods and not the actual time at which the covariance is computed. If a time series is stationary, its mean, variance, and autocovariance (at various lags) remain the same no matter at what point we measure them; that is, they are time invariant.

We have used Augmented Dickey-Fuller unit root test to examine the stationarity of data series. The method of ADF test is following-

Let us consider a random walk model with drift and trend

$$Y_t = \alpha + \beta Y_{t-1} + \beta_1 t + \mu_t \quad \text{.......................................(2)}$$

Manipulation of equation (2) for theoretical purposes we get

Or

$$\Delta Y_t = \alpha + \delta Y_{t-1} + \beta_1 t + \mu_t \quad \text{..............................(3)}$$

It is likely that regression equation in (3) will be affected by serial correlation if we apply OLS. To get rid of the problem of serial correlation Augmented Dickey-Fuller (ADF) unit root test of the following form was proposed.

$$\Delta Y_t = \alpha + (\beta - 1)Y_{t-1} + \beta_1 t + \mu_t \qquad \text{........(4)}$$

Where "k" is the optimal lag length specified by some information criterion [Akaike(AIC) or Schwarz].

if

Ho : δ=0series will be non-stationary

against

H_1 : $\delta < 0$ series will stationary

Formal test for null hypothesis is to apply OLS to equation …(3) and obtain the estimate of δ. If it is equal to zero then the series is non-stationary, only thing we have to see that the value of δ is significant or not so we will use tau statistics (τ) ;

case 1- if τ calculated is greater than τ tabulated then we cannot reject null hypothesis i.e.; our series is non-stationary.

case 2- if τ calculated is less than τ tabulated then we reject null hypothesis i.e.; our series is stationary.

5.4. Phillips-Perron (PP) Unit Root Test-

As in equation (3) Dickey-Fuller unit root test using OLS will lead a serial correlation problem. To account for this problem augmented Dickey-Fuller test regression includes lags of first difference of Y_t, where as in Phillips-Perron (PP) test Newey-West standard errors are used to account for the serial correlation. The Phillips-Perron (PP) test involves fitting regression equation (3), and the results are used to calculate the test statistics. Phillips and Perron (1988) proposed two alternative statistics. Phillips and Perron's test statistics can be viewed as Dickey-Fuller statistics that have been made robust to serial correlation by using Newey-West (1987) heteroscedasticity and autocorrelation- consistent covariance matrix estimator.

6. Components of revenue receipt of Uttar Pradesh: Growth rates-

In this section we will compute growth rates of tax revenue, non-tax revenue and total revenue of Uttar Pradesh. We have computed growth rates of different series and showed the results in Table 2. Form table (2) we can easily observe simple growth rates over the previous years for GSDP, tax revenue, non-tax revenue and total revenue fluctuated during the period under study.

6.1. Growth rate for series Tax Revenue at different year-

In Table (2) we can observe, simple growth rates over the previous years for tax revenue is fluctuating during the period under study. Tax revenue has registered growth rate of **13.92** per cent in **1991-92**. It has also registered negative growth rates of **-3.06** percent in **1998-99**. Tax revenue has registered its highest growth rate of **28.78** per cent in **2010-11** and lowest growth rate of **-3.06** per cent in **1998-99**.

6.2. Growth rate for series non-tax Revenue at different year-

In **Table (2)** we can see, simple growth rates over the previous years for non-tax revenue is fluctuating during the period under study. Growth rates for non-tax revenue resource is more volatile than growth rates for tax revenue. As per concern of Non-Tax revenue source for Uttar Pradesh has registered growth rate of **21.23** per cent in **1991-92**. It has also registered negative growth rates of **-22.54**, **-5.26**, **16.86** and **-13.45** per cent in **1996-97**, **1997-98**, **2002-03** and **2010-11** respectively. Interestingly when Tax revenue has registered its highest growth rate of **28.78** per cent in **2010-11** then non-tax revenue has registered its negative growth rate. Non-tax revenue has registered its highest growth rates of **73.54** in **2006-07** and lowest growth rate of **-22.54** per cent in **1996-97**, **1997-98**, **2002-03** and **2010-11** respectively. Interestingly when Tax revenue has registered its highest growth rate of **28.78** per cent in **2010-11** then non-tax revenue has registered its negative growth rate. Non-tax revenue has registered its highest growth rates of **73.54** in **2006-07** and lowest growth rate of **-22.54** per cent in **1996-97**.

Table 1: Tax and Non-tax Receipts on Revenue Account in U.P

Year	tax revenue	non-tax revenue	total revenue
1990-91	546777	284233	831010
	(65.8)	(34.2)	(100)
1991-92	622874	344587	967461
	(64.38)	(35.62)	(100)
1992-93	728494	439124	1167618
	(62.39)	(37.61)	(100)
1993-94	768408	444729	1213137
	(63.34)	(36.66)	(100)
1994-95	883807	455516	1339323
	(65.99)	(34.01)	(100)

1995-96	1050294	471227	1521521
	(69.03)	(30.97)	(100)
1996-97	1237835	365022	1602857
	(77.23)	(22.77)	(100)
1997-98	1411287	345824	1757111
	(80.32)	(19.68)	(100)
1998-99	1368123	369746	1737869
	(78.72)	(21.28)	(100)
1999-00	1687981	461531	2149512
	(78.53)	(21.47)	(100)
2000-01	2002547	471783	2474330
	(80.93)	(19.07)	(100)
2001-02	2051931	507860	2559791
	(80.16)	(19.84)	(100)
Growth rate	**5.37**	**1.15**	**4.22**
2002-03	2359868	422251	2782119
	(84.82)	(15.18)	(100)
2003-04	2687420	476377	3163797
	(84.94)	(15.06)	(100)
2004-05	3074781	686956	3761737
	(81.74)	(18.26)	(100)
2005-06	3706103	828812	4534915
	(81.72)	(18.28)	(100)
2006-07	4621629	1438324	6059954
	(76.27)	(23.73)	(100)
2007-08	5424706	1442541	6867247
	(78.99)	(21.01)	(100)

2008-09	5996066.5	2258604	8254671
	(72.64)	(27.36)	(100)
2009-10	6567427	3074667	9642094
	(68.11)	(31.89)	(100)
2010-11	8457390	2660987	11118376
	(76.07)	(23.93)	(100)
2011-12	10296438	2790532	13086970
	(78.68)	(21.32)	(100)
2012-13	11559621	3030777	14590399
	(79.23)	(20.77)	(100)
2013-14 (R E)	13255800	3967634	17223434
	(76.96)	(23.04)	(100)
2014-15 (B.E)	15750155	6891722	22641877
	(69.56)	(30.44)	(100)
Growth rate	**7.71**	**10.48**	**8.3**
Overall Growth rate	**6.21**	**5.23**	**5.93**

Source:RBI, State Finances: A Study of Budgets, Various Issues

Table 2. GROWTH RATES OF REVENUE RESOURCE of U.P (Rs. in Lacs)

Year	Tax revenue		Non-tax revenue		Total revenue		GSDP	
	Amount	Growth rate	Amount	Growth rates	Amount	Growth rates	amount	Growth rate
1990-91	546777.00		284233.00		831010.00		14642547	-
1991-92	622874.00	13.92	344587.00	21.23	967461.00	16.4199	14702468	0.41
1992-93	728494.00	16.96	439124.00	27.43	1167618.00	20.6889	14860781	1.08
1993-94	768408.00	5.48	444729.00	1.28	1213137.00	3.89845	15229164	2.48
1994-95	883807.00	15.02	455516.00	2.43	1339323.00	10.40163	16023581	5.22
1995-96	1050294.00	18.84	471227.00	3.45	1521521.00	13.60374	16541282	3.23
1996-97	1237835.00	17.86	365022.00	-22.54	1602857.00	5.345703	18377072	11.1
1997-98	1411287.00	14.01	345824.00	-5.26	1757111.00	9.623691	18181571	-1.06
1998-99	1368123.00	-3.06	369746.00	6.92	1737869.00	-1.09509	18315479	0.74
1999-00	1687981.00	23.38	461531.00	24.82	2149512.00	23.68665	19485492	6.39
2000-01	2002547.00	18.64	471783.00	2.22	2474330.00	15.11124	19883878	2.04
2001-02	2051931.00	2.47	507860.00	7.65	2559791.00	3.453905	20245606	1.82
2002-03	2359868.00	15.01	422251.00	-16.86	2782119.00	8.685397	20900718	3.24
2003-04	2687420.00	13.88	476377.00	12.82	3163797.00	13.71897	22001188	5.27
2004-05	3074781.00	14.41	686956.00	44.20	3761737.00	18.89944	23102900	5.01
2005-06	3706103.00	20.53	828812.00	20.65	4534915.00	20.55375	25864300	11.95
2006-07	4621629.00	24.70	1438324.00	73.54	6059954.00	33.62883	29676700	14.74
2007-08	5424706.00	17.38	1442541.00	0.29	6867247.00	13.32177	33581000	13.16

2008-09	5996066.50	10.53	2258604.00	56.57	8254670.50	20.20349	39277100	16.96
2009-10	6567427.00	9.53	3074667.00	36.13	9642094.00	16.80774	46358300	18.03
2010-11	8457390.00	28.78	2660987.00	-13.45	11118376.00	15.3108	53221800	14.81
2011-12	10296438.00	21.74	2790532.00	4.87	13086970.00	17.70577	60892600	14.41
2012-13	11559621.00	12.27	3030777.00	8.61	14590399.00	11.48798	69077500	13.44
2013-14 (R E)	13255800.00	14.67	3967634.00	30.91	17223434.00	18.04635	76054200	10.1
2014-15 (B.E)	15750155.00	18.82	6891722.00	73.70	22641877.00	31.45971	86105400	13.22

6.3. Growth rate for series Total Revenue at different year-

As we know that total revenue of Uttar Pradesh consists of tax revenue and non-tax revenue. Table 2 is showing growth rates of total revenue at different years. In Table (2) we can observe, simple growth rates over the previous years for total revenue is fluctuating during the period under study. Total revenue has registered growth rate of **16.42** per cent in **1991-92**. It has also registered negative growth rates of **-**1.10 percent in 1998-99. Total revenue has also registered its highest growth rate of 33.63 per cent in 2006-07 and lowest growth rate of **-1.10** per cent in **1998-99**. Interestingly, total revenue has registered lowest growth rate when tax revenue has also registered its lowest growth rate but total revenue has registered highest growth where non-tax revenue has also registered its highest growth rate.

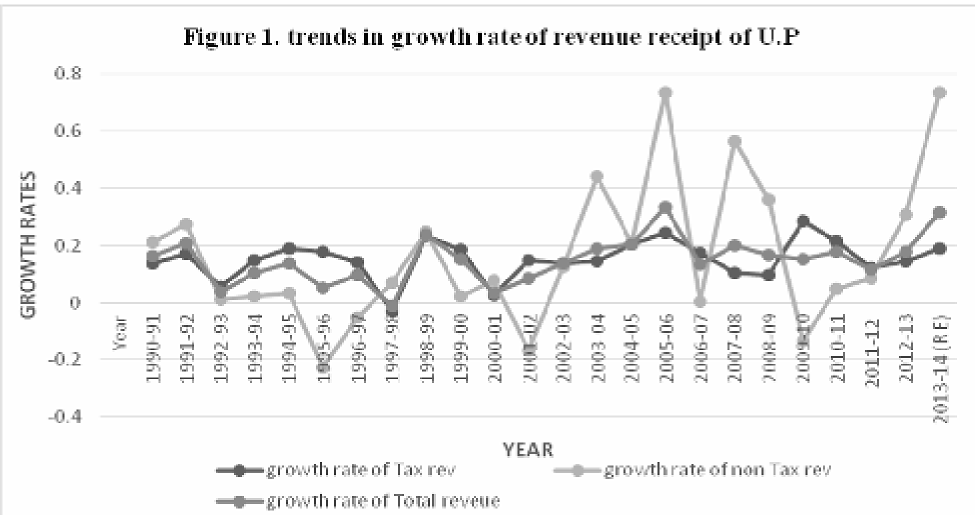
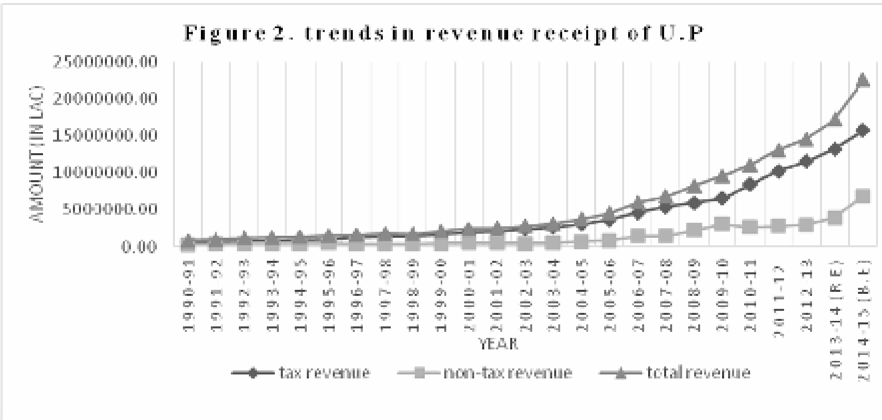


Figure (1) brings clearer picture for growth rates of tax revenue, non-tax revenue and total revenue at different point of time. It shows growth rates of non-tax revenue is more fluctuating than other resources.

7. Revenue receipts and GSDP of Uttar Pradesh: Stationarity test -

First of all we will talk about stochastic process. A random or stochastic process is a collection of random variables ordered in time. A type of stochastic process that has received a great deal of attention and scrutiny by time series analysts is the so-called stationary stochastic process. Broadly speaking, a stochastic process is said to be stationary if its mean and variance are constant over time and the value of the covariance between the two time periods depends only on the distance or gap or lag between the two time periods and not the actual time at which the covariance is computed. In the time series literature, such a stochastic process is known as a weakly stationary, or covariance stationary, or second-order stationary, or wide sense, stochastic process. Although there are several tests of stationarity, we have discussed in our methodology section. In this section we will discuss two tests: (i) graphical analysis and (ii) the correlogram test. We will apply these test on series of Tax revenue, non-tax revenue and total revenue one by one. Before pursuing formal tests, it is always important to plot the time series under study, as we have done in **Figures 2** for the data given in Table (1). Such a plot gives an initial clue about the likely nature of the time series.

Figure 2 is a plot of the data for tax revenue, non-tax revenue and total revenue. A visual plot of the data is usually the first step in the analysis of any time series. The first impression that we get from these graphs is that all the time series shown in **Figures 2** seem to be "trending" upward, albeit with fluctuations. If we depend on common sense, it would seem that the time series depicted in **Figures 2** is nonstationary, at least in the mean values.



By seeing graph of these series we can get initial clue of non stationary data series for tax revenue, non-tax revenue and total revenue.

Now we will test stationarity of tax revenue series by using correlogram test.

Figure 3. Correlogram of tax revenue series.

LAG	AC	PAC	Q	Prob>Q	[Autocorrelation]	[Partial Autocor]
1	0.8173	1.1731	18.786	0.0000		
2	0.6627	-0.0002	31.675	0.0000		
3	0.5226	0.9090	40.056	0.0000		
4	0.3857	0.4784	44.839	0.0000		
5	0.2716	0.5736	47.328	0.0000		
6	0.1899	-0.0125	48.61	0.0000		
7	0.1091	0.2882	49.056	0.0000		
8	0.0294	-0.0535	49.09	0.0000		
9	-0.0432	0.0445	49.169	0.0000		
10	-0.0990	1.9201	49.609	0.0000		

. AC = autocorrelation, PAC = partial autocorrelation, Q-Stat = *Q* statistic, Prob = probability.

The solid vertical line in this diagram represents the zero axis; observations above the line are positive values and those below the line are negative values. If diagram of autocorrelations at various lags hover around zero, then that picture will be of a correlogram of a stationary time series. In other words if diagram of correlogram showing any pattern then that series will be nonstationary. In above figure, correlogram for series tax revenue is showing a pattern, it is damping towards zero so series under consideration will be non stationary at level. Similarly we test stationarity of data series for non-tax revenue and total revenue.

Figure 4. Correlogram of non-tax revenue series at level

LAG	AC	PAC	Q	Prob>Q	[Autocorrelation]	[Partial Autocor]
1	0.6474	1.3484	11.788	0.0006		
2	0.5039	-0.4284	19.241	0.0001		
3	0.4285	0.4215	24.875	0.0000		
4	0.3598	0.4826	29.036	0.0000		
5	0.3073	1.6777	32.223	0.0000		
6	0.1615	-0.0101	33.149	0.0000		
7	0.0467	1.4346	33.231	0.0000		
8	-0.0053	1.9979	33.232	0.0001		
9	-0.0900	0.1678	33.573	0.0001		
10	-0.1289	-0.3355	34.321	0.0002		

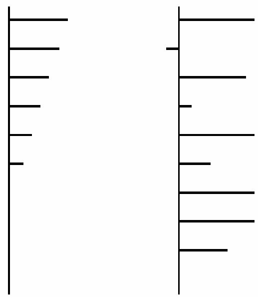
AC = autocorrelation, PAC = partial autocorrelation, Q-Stat = *Q* statistic,

Prob = probability.

Above result is calculated with help of STATA-12 (demo version).

Figure 5. Correlogram of total revenue series at level.

LAG	AC	PAC	Q	Prob>Q
1	0.7813	1.2255	17.17	0.0000
2	0.6346	-0.2241	28.988	0.0000
3	0.5116	0.9126	37.018	0.0000
4	0.3889	0.1567	41.878	0.0000
5	0.2821	1.0203	44.564	0.0000
6	0.1837	0.4143	45.763	0.0000
7	0.0946	1.1676	46.098	0.0000
8	0.0191	1.8777	46.112	0.0000
9	-0.0564	0.6937	46.246	0.0000
10	-0.1085	0.0356	46.776	0.0000



AC = autocorrelation, PAC = partial autocorrelation, Q-Stat = *Q* statistic, Prob = probability. Above result is calculated with help of STATA-12 (demo version).

Figure 4 and **figure 5** for correlogram of non-tax revenue and total revenue are showing trend, its damping towards zero. So our series under consideration will be non stationary.

8. Revenue receipts and GSDP of Uttar Pradesh: Stationarity test (ADF and PP test)-

In previous section we have examine stationarity of data series with the help of traditional method (graphical analysis and correlogram test). In this section of research work we will use some advanced test (Augmented Dickey-Fuller test and Phillip-Perron test) to confirm of stationarity of data series. In this section we have applied ADF and PP test on different data series. Estimation of results is as following-

8.1 Augmented Dickey-Fuller test-

The unit root results in Table.3 confirm that all the variables (tax revenue, non-tax revenue, total revenue and GSDP) are non-stationary in level, whereas the ADF tests confirm that the first differences of all the variables (tax revenue, non-tax revenue, total revenue and GSDP) are nonstationary. The ADF tests confirm that the second differences of the variables (tax revenue, non-tax revenue and GSDP) are stationary, only variable total revenue is stationary at third difference. Here trend and intercept terms are included for all the series at level and only intercept term is included for the first differences in the ADF test. The lag length for the ADF test is selected by the Akaike Information Criterion.

The results of the Table.4 also confirm the results of the Table. 3 Thus it can be said that all the three unit root tests (traditional test for stationarity, ADF and PP test) show that tax revenue, non-tax revenue, total revenue and GSDP are non-stationary at level and first differences of these time series. The PP test also confirms that the second differences of the variables (tax revenue, non-tax revenue and GSDP) are stationary, only variable total revenue is stationary at third difference. Here trend and intercept terms are included for all the series at level and only intercept term is included for the first differences in the PP test. The lag length for the PP test is selected by Newey-West method.

Table 3: Showing Results of ADF Unit Root Test

Series	Test Statistics	1% Critical Value	5% Critical Value	10% Critical Value	Result
Tax revenue at level	7.454	-3.750	-3.000	-2.630	Accept the null hypothesis
Non-tax revenue at level	2.334	-3.750	-3.000	-2.630	Accept the null hypothesis
Total revenue at level	3.071	-3.750	-3.000	-2.630	Accept the null hypothesis
GSDP at level	0.732	-3.750	-3.000	-2.630	Accept the null hypothesis
Tax revenue at 1st difference	0.049	-3.750	-3.000	-2.630	Accept the null hypothesis
Non-tax revenue at 1st difference	0.012	-3.750	-3.000	-2.630	Accept the null hypothesis
Total revenue at 1st difference	2.462	-3.750	-3.000	-2.630	Accept the null hypothesis
GSDP at 1st difference	0.631	-3.750	-3.000	-2.630	Accept the null hypothesis
Tax revenue at 2nd difference	-4.393	-3.750	-3.000	-2.630	Reject the null hypothesis
Non-tax revenue at 2nd difference	-3.243	-3.750	-3.000	-2.630	Reject the null hypothesis@
Total revenue at 2nd difference	-1.861	-3.750	-3.000	-2.630	Accept the null hypothesis
GSDP at 2nd difference	-5.618	-3.750	-3.000	-2.630	Reject the null hypothesis
Total revenue at 3rd difference	-5.746	-3.750	-3.000	-2.630	Reject the null hypothesis

*Null Hypothesis H0: Series contains unit root.

@ Represent rejection of null at 5% and 10% level respectively.

Table 4: Showing Results of PP Unit Root Test

Series	Test Statistics	1% Critical Value	5% Critical Value	10% Critical Value	Result
Tax revenue at level	**15.29**	**-3.75**	**-3**	**-2.63**	**Accept the null hypothesis**
Non-tax revenue at level	**3.284**	**-3.75**	**-3**	**-2.63**	**Accept the null hypothesis**
Total revenue at level	**10.297**	**-3.75**	**-3**	**-2.63**	**Accept the null hypothesis**
GSDP at level	**8.827**	**-3.75**	**-3**	**-2.63**	**Accept the null hypothesis**
Tax revenue at 1st difference	**1.09**	**-3.75**	**-3**	**-2.63**	**Accept the null hypothesis**
Non-tax revenue at 1st difference	**0.146**	**-3.75**	**-3**	**-2.63**	**Accept the null hypothesis**
Total revenue at 1st difference	**3.248**	**-3.75**	**-3**	**-2.63**	**Accept the null hypothesis**

GSDP at 1st difference	1.519	-3.75	-3	-2.63	Accept the null hypothesis
Tax revenue at 2nd difference	-4.38	-3.75	-3	-2.63	Reject the null hypothesis
Non-tax revenue at 2nd difference	-3.216	-3.75	-3	-2.63	Reject the null hypothesis@
Total revenue at 2nd difference	-1.74	-3.75	-3	-2.63	Accept the null hypothesis
GSDP at 2nd difference	-5.619	-3.75	-3	-2.63	Reject the null hypothesis
Total revenue at 3rd difference	-5.841	-3.75	-3	-2.63	Reject the null hypothesis

*Null Hypothesis H0: Series contains unit root.

@ Represent rejection of null at 5% and 10% level respectively.

9. Conclusions-

Following are main findings of our study-

(i) It is evident from our study that total revenue has increased from Rs. **831010**lacs in the year **1990-91** to Rs. **22641877** lacs in **2014-15** exhibiting an overall growth rate of **5.93** per cent per annum.

(ii) Tax revenue of Uttar Pradesh has increased from Rs. **546777** lacs in 1990-91 to Rs. **15750155**lacs in 2014-15, with an overall growth rate of **6.21** per cent per annum.

(iii) Non-Tax revenue of Uttar Pradesh increased from Rs. **284233** lacs in 1990-91 to Rs. **6891722** lacs in 2014-15 with an overall growth rate of **5.23** per cent per annum.

(iv) Tax-Revenue has registered its highest growth rate of **28.78** per cent in **2010-11** and lowest growth rate of **-3.06** per cent in **1998-99.**

(v) Non-tax revenue has registered its highest growth rates of **73.54** in **2006-07** and lowest growth rate of **-22.54** per cent in **1996-97**.

(vi) GSDP of U.P registered lowest growth rate of **-1.06** in **1997-98**. Its highest growth rate of **13.44** per cent in **2012-13**.

Application of ADF test for unit root, confirms that the variables tax revenue, non-tax revenue, total revenue and GSDP are non-stationary at levels. Variables tax revenue, non tax revenue and GSDP become stationary after taking the second difference, thus the order of integration of these variables are 2. These variables are said to be (I_2). Variable total revenue becomes stationary after third difference. So the order of Integration of this variable will be 3. To confirm unit root test we have also applied PP test. PP test also confirms that tax revenue, non-tax revenue, total revenue and GSDP are non-stationary at level.

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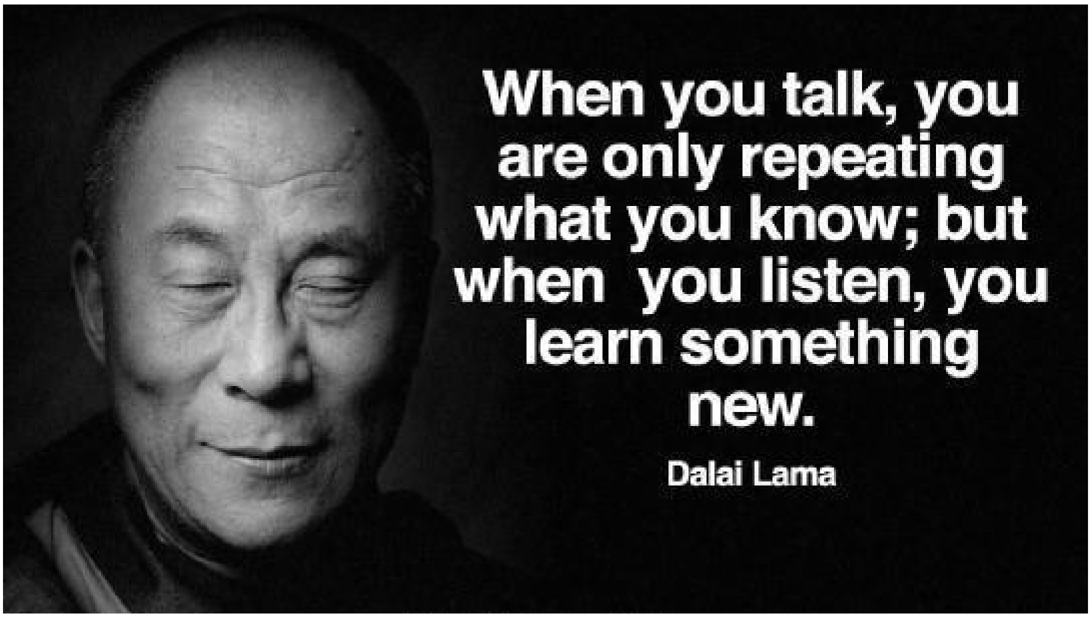

IMPACT OF LABOR EXPORTS ON THE LONG-TERM ECONOMIC GROWTH: LESSONS LEARNT FROM INTERNATIONAL EXPERIENCE TO IMPROVE THE MIGRATION POLICY OF THE REPUBLIC OF UZBEKISTAN

Kadirova Zulaykho Abdukhalimovna[1]

ABSTRACT

Since the beginning of the 21st century, the Republic of Uzbekistan has witnessed an extensive growth in outward labor migration. Exports of labor have contributed to a high growth in money remittances from abroad which are now estimated to account for over 10% of the country's GDP. Present article aims to evaluate the long-term economic consequences from the exports of labor in the examples of the Philippines and Morocco. These countries are considered to be among the leading labor exporters and comparable to the Republic of Uzbekistan on many social and economic parameters. The lessons learnt from international experience can help Uzbekistan in formulating its policy for managing labor migration. To assess whether the policy of supporting labor exports has helped the Philippines to outperform its neighboring countries, the article compares the economic indicators of the country, such as GDP per capita, unemployment, foreign direct investments to the indicators of the neighboring countries in the long-term. To compare the relative change in the well-being of population between importers and exporters of labor, the economic indicators of Morocco were compared to the countries recipients of labor. In conclusion, the present article makes conclusions on long-term consequences of labor exports and suggests economic and social measures for the Republic of Uzbekistan in formulating its policy to manage labor resources.

Keywords: *International migration, labor migration, labor exports, money remittances, migration policy, net migration, remigration, migrant stock, migration from Uzbekistan, labor migration from the Philippines, labor migration from Morocco*

Introduction

After gaining its independence in 1991, the Republic of Uzbekistan has become a full-fledged member of international community. On the one hand this opened up a window of opportunity to benefit from the globalization of world economy, whereas on the other hand it necessitated the creation of the national policy to increase employment keeping the peculiarities of socio-economic and demographic development of the country.

Integration of the Republic of Uzbekistan into the structure of various international organizations allows it to tackle different issues related to employment and labor migration.

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In this regard, Uzbekistan underlines the importance of shaping a new job market that meets the world standards and addresses the need of job creation in various regions of Uzbekistan.

We believe that a scientific research in the context of current issues related to managing labor migration and theimpact of labor migration on national labor market obtain an utmost importance.

During such a research, we will cover the motives of the part of population inclined to migration and long-term consequence of their migration. On the basis of such knowledge we will develop a science based conceptual framework of the national migration policy, determine the mechanisms which will allow implement the proposed policy and develop effective approach in studying the current issues affecting the socio-economic of development of the country.

Moreover, the current article attempts to research foreign experience of sampled countries, which are comparable to the Republic of Uzbekistan in terms of the economic development, demographic indicators, as well the proportion of labor exports with the purpose of generating practical recommendations for modifying the national migration policy.

Based on the goals set forth, we would like to characterize the current state of migration from Uzbekistan and define the main issues in this area of socio-economic life.

During the past years, as a result of a natural growth in population and subsequent increase in the number of international migrants from different parts of Uzbekistan, labor force is steadily increasing in absolute numbers. As a result, the question of how to manage rationally the labor force being accumulated in central regions gains importance. The growth rate in labor force significantly exceeds the growth in jobs. The growth in labor force, the characteristics of its distributions in different regions of the country, placement in various sectors of economy, and finally the efficiency of usage labor resources are the arrears that require specific attention. The importance of the latter stems from the fact that the natural growth in population has consistently led to the increased proportion of youth. In the areas of cotton and cattle farming, oil and gas exploration, metallurgy, chemicals and machinery building the country has sufficient labor to supply.

It is widely accepted notion that the migrant flow of labor to developed countries help stabilize and improve the economy of a labor supplying country and serve as a main factor to improve the financial system.

The author aims to study the experience of managing the labor migration in such developing countries whose economies are similar to Uzbekistan, such as the Philippines and Morocco. The Philippines and Morocco on a number of indicators, such level of economic development, size of the country, total number of and breakdown of population, ratio of labor migrants to total population, ratio of money remittances to GDP are comparable to Uzbekistan.

Below table depicts the comparable figures.

Table 1 : **Main economic indicators of the Philippines, Morocco and Uzbekistan (2014)**

	Philippines	Morocco	Uzbekistan
Population, total(mln)	99,1	33,9	30,7
Population growth(%)	1,5%	1,3%	1,6%
Outward migrant stock (mln)	10,2*	3,4**	1,7***
Ratio of migrants to total population(%)	10%	10%	10%
GDP(USD bln)	284,5	107,0	62,6
GDP per capita(USD)	2 870	3 103	2 037
GDP growth(%)	4,4%	1,1%	6,2
Total exports (USD bln)	72,5	32,6	13,3****
Total imports (USD bln)	83,5	49,8	13,9*****
FDI (USD bln)	6,2	3,3	1,1
Money remittances (USD bln)	28,4	6,8	5,5 (includes only from Russian Federation)

Source: Worldbank data -. http://data.worldbank.org/

* *wikipedia.com*

** *data from the consulate of Morocco and the statistics of countries- recepients of labor*

*** *2013 data according toUNISEF (Uzbekistan Migration Profile) - http://esa.un.org/miggmgprofiles/indicators/files/Uzbekistan.pdf. for comparison purposes: according the Annual demography of Uzbekistan 2014, total number of citizens of Uzbekistan who left the country amounted 184 thousand people*

**** *data from (WTO) -*
http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=UZ

PHILIPPINES

Achievements of the Philippines in labor exports

While the population and the economy of Philippines is 3,2 and 4,9 times larger respectively than that of Uzbekistan, both stand at similar level of economic development, similar percentage of labor force migration, and both have similar dependency on remittances of migrant labor.

The Philippines has often been named as an example for the best policies that support and protect labor exports. Country's policies towards protecting the migrants rights are formulated in Migrant Workers and Overseas Filipinos Act of 1995, which aims to achieve the following:

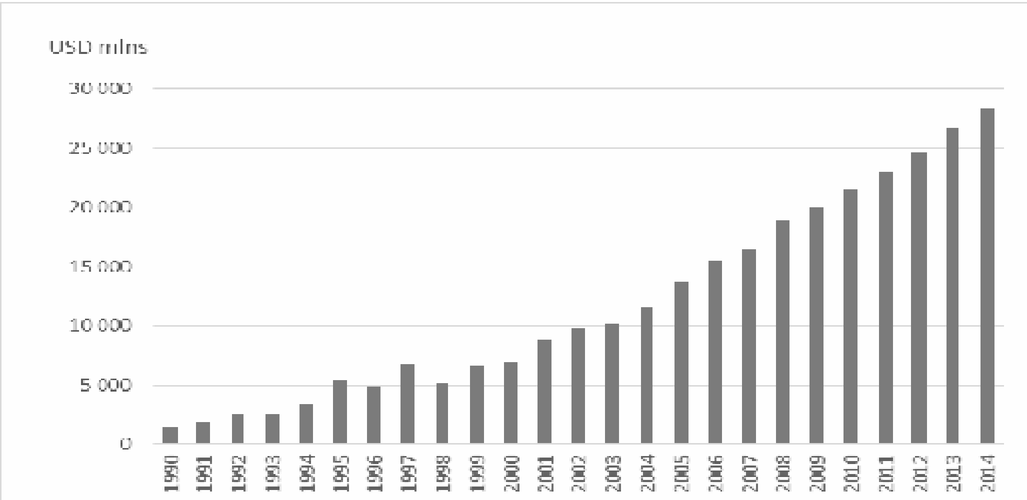
- To prevent illegal recruitment: issuance of travel advisories and information dissemination on labor and employment conditions and migration to be published thrice a quarter in a general circulation newspaper; creation of the Migrant Workers Loan Guarantee Fund of PHP 100 mln for pre-departure and family loans of migrant workers.
- To aid migrant workers in distress in their host countries: creation of Emergency Repatriation Fund of at least PHP 100mln for repatriation of migrant workers in times of war, epidemic, disasters (natural or manmade), etc.
- To enforce migrant workers' rights in their host countries: establishment of Migrant Workers and Other Overseas Filipinos Resource Center which will provide, among many others, counsel and legal services, welfare assistance (medical services), post-arrival orientation, settlement and community networking services, human resource development (skills training), monitoring of daily situations of migrant workers, etc.; Rights and Enforcement Mechanisms Under International Human Rights Systems by the DFA (which will see to it that Filipino migrant workers who are victims of abuse and violation will receive the treatment they deserve under international human rights systems).
- For returning Filipino migrant workers: establishment of re-placement and monitoring center which will aid their reintegration into the Philippine society by developing livelihood programs and promoting their local employment, among other services.

- Legal Services: creation of Legal Assistance Fund of PHP 100 mln that will be used exclusively to provide legal services to Filipino migrant workers and overseas Filipinos in distress.

According to the Commission on Filipinos Overseas (Office of the President of Philippines) estimated stock of overseas Filipinos numbered 10 489 628 in 2013. Total of top 5 countries account for 60-65% of migration destination for Filipinos and include USA, Saudi Arabia, United Arab Emirates, Canada and Malaysia[1.P.15]. Public opinion polls say that one-third of Filipinos would go abroad if given the chance.

Wide scale exports of labor caused foreign remittances to grow almost 19 times during 1990-2014 from a mere USD 1.5 bln to USD 28.4bln. In 2014 that represented almost 10% of the country's GDP and was 8.8 times more than total FDI invested into the country.

Graph 1. Total remittances to Philippines



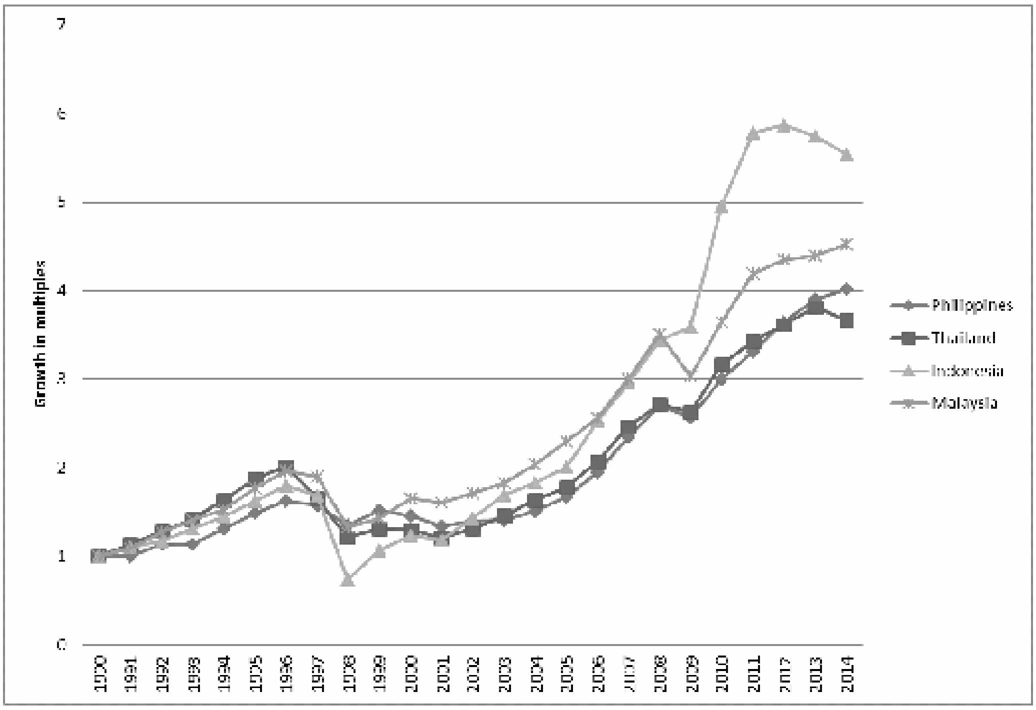
Labor export policies have created the benefits in the form of high foreign exchange reserves, positive balance of payments, education and small scale enterprises by families receiving remittances, and improved knowledge and skills by migrants returning home. Earnings from overseas employment have also encouraged investments in the housing industry and enlivened domestic tourism.

Comparing performance with peers

So did Philippines win from exporting its labor? Have the policies of the government of Philippines directed at stimulating labor exports caused its economy to perform better than its neighbouring countries (Indonesia, Malaysia, Thailand, Vietnam are selected for comparison due to similar or close to similar economic, social and geographic characteristics)? Looking at statistics, it becomes obvious that the economy of Philippines does not over perform that of its neighbours.

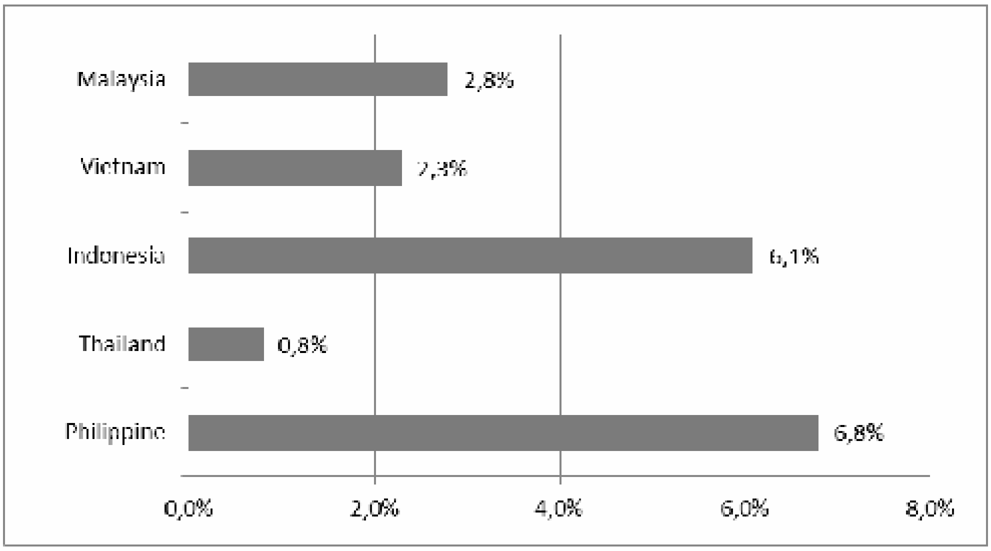
Economic growth as measured by growth in GDP per capita was among the lowest in Philippines during 1990-2014 versus the growth in compared countries. GDP per capita for Philippines in 2014 was 4 times larger than it was back in 1990 as opposed to a factor growth of 4.5 of Malaysia, 5.5 for Indonesia (Vietnam, excluded from the below graph, achieved 20.9times growth partly due to a very low start back in 1990, when GDP per capita was a mere USD 98).

Graph 2. Growth of GDP per capita in multiples from 1990



Despite large outward labor migration, unemployment rate remained high in Philippines. Unemployment rate in Philippines stood at 6,8% of workforce in 2014 and was the highest among its close neighbours. Moreover, according to the National Statistics Office of Philippines, the main problem in the country is not unemployment, but rather under employment. While the unemployment rate dipped to 6.8 percent, the under employment rate reached 20.9 percent in 2014. Thus, combined unemployment and under employment comprised almost 28% of total workforce of Philippines [2.P.24].

Graph 3. Unemployment in 2014

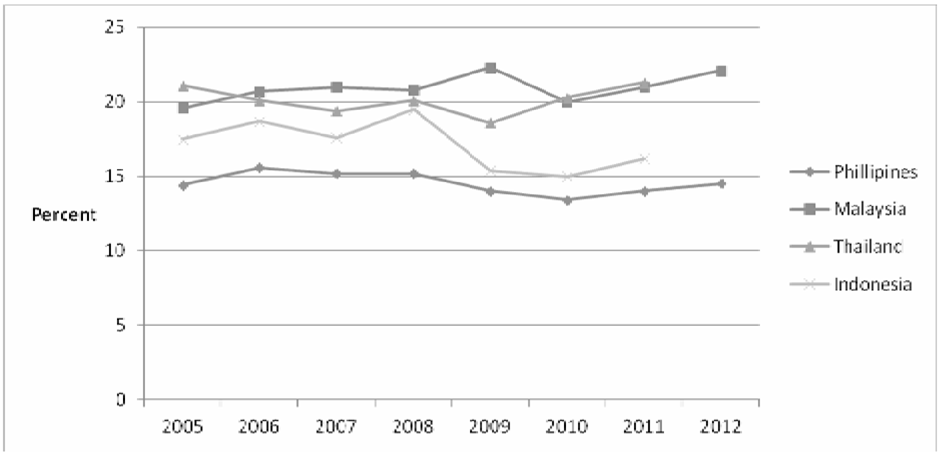


Although labor exports have obviously helped the government of Philippines solve social problems, improve the balance of payments, stimulate consumption, however, in the long-run the country failed to generate better economic growth or improve employment situation.

According to Prod Laquian (Professor Emeritus of human settlements planning at The University of British Columbia) - the most serious negative effect of labour export policies in Philippines has been the neglect of domestic production and poor investments in infrastructure, agriculture, mining, export promotion, and social development because of the easy availability of funds from remittances.

Income of population from foreign remittances is not taxed (personal income tax, social security deductions, and etc) and thus does not directly generate revenue for the state treasury. Moreover, as human resources are not involved in generating added value in the country, the state also bears an opportunity cost, as it is deprived from potential corporate tax revenues. Deprived from revenues, which could have been received if labor worked in the country, the state is handicapped in providing subsidies or pursuing policies directed towards increasing domestic production, technological upgrade, or improving infrastructure.

Graph 4. State revenues as % of GDP *

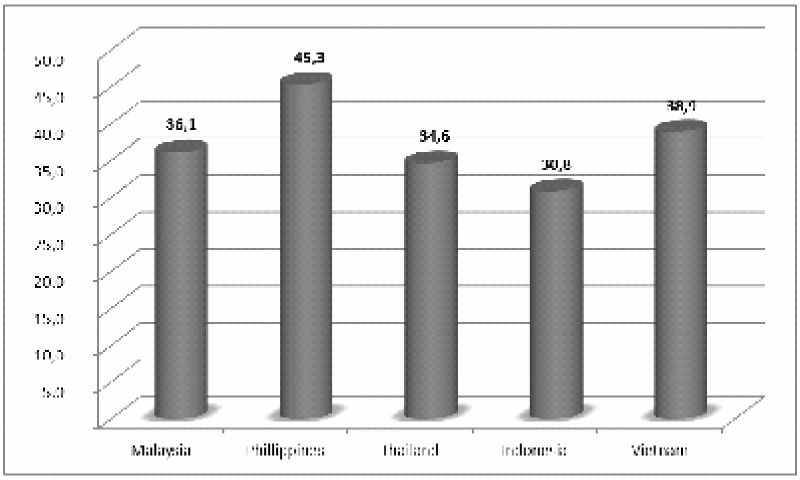


** State revenue measures cash receipts from taxes, social contributions, and other revenues such as fines, fees, rent, and income from property or sales.*

State revenues in Philippines stood at 14,5% of country's GDP and was the lowest among the compared countries (data for Vietnam was not available, as well as 2012 figure for Indonesia).

Faced with lower revenues amid greater spending needs, the government tends to compensate the handicap by increasing the taxes. In fact, Philippines boast the highest tax burden of 45,3 % compared to its neighbours.

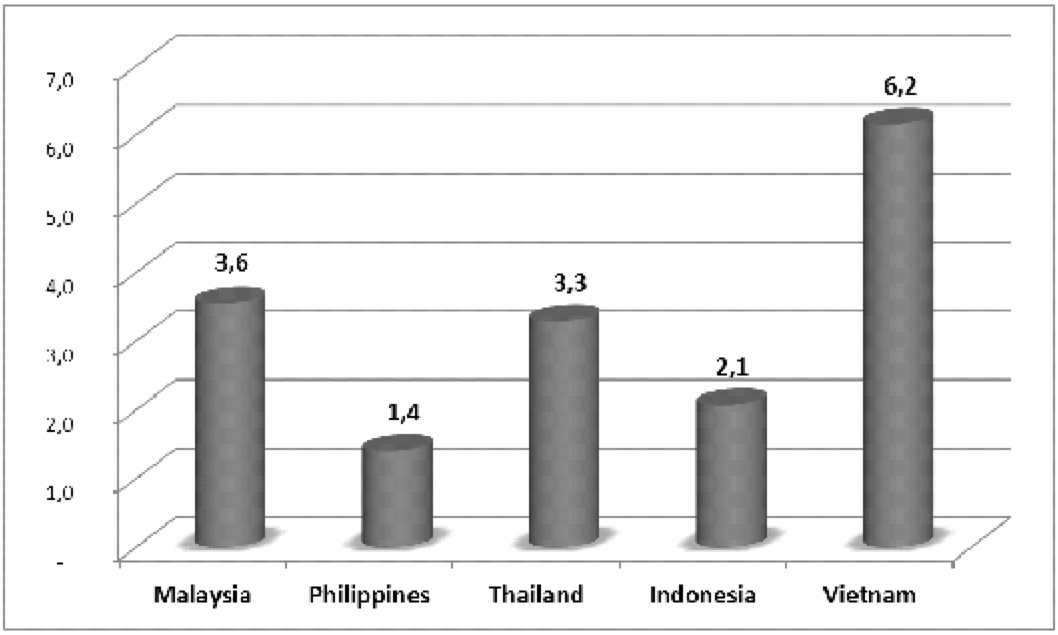
Graph 5. Total tax rate (% of commercial profits) *



** Total tax rate (% of commercial profits) - measures the amount of taxes and mandatory contributions payable by businesses after accounting for allowable deductions and exemptions as a share of commercial profits. Taxes withheld (such as personal income tax) or collected and remitted to tax authorities (such as value added taxes, sales taxes or goods and service taxes) are excluded.*

Higher tax rates, however, bring less foreign direct investments, which are vital for a developing country in order to jump start the domestic production capabilities. In a competitive environment, where neighbouring countries have similar geographic, social, and economic conditions, higher taxes in Philippines is a clear disadvantage in attracting foreign direct investments. As a result, Philippines has the lowest attractiveness for foreign direct investors.

Graph 6. Foreign direct investments as % of GDP (average during 2005-2014)



Philippines has the lowest FDI to GDP ratio of a mere 1.4% and hence the lowest growth in GDP per capita among the compared countries. In contrast, Vietnam boasts the highest FDI to GDP ratio of 6,2%. Earlier we have mentioned that the GDP per capita growth coefficient for Vietnam of 17,9 is the highest among five compared countries (growth in multiples with 1990 as a base).

Concluding remarks on Philippines

To conclude, the labor export strategy did not help Philippines' economy outperform its neighbour in the long run. It caused lower government revenues, which led to lower spending on development of domestic production and higher taxes. The latter attracted fewer foreign direct investments and country's GDP per capita grew the least compared to neighbouring countries with similar characteristics.

Although foreign remittances significantly increase the disposable income of recipient families, effect of higher consumption will not be completely absorbed by domestic producers. With little domestic production of basic goods and services, higher consumption will increase imports to a larger extent compared to country's GDP.

MOROCCO

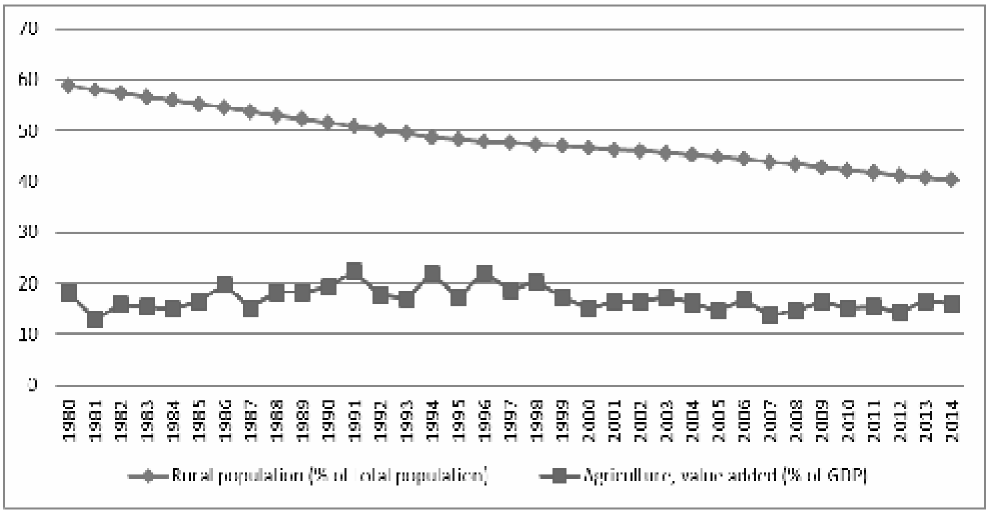
Historical aspects of Moroccon migration

Morocco was under French occupation during 1912-1956. Colonial times were the beginning of migration trends of Moroccans to France. Furthermore, during 1962 – 1972 magnitude and scope of Moroccan migration significantly expanded due to strong economic growth in Europe and subsequent high demand for low skilled workers. Labor recruitment agreements were signed with a number of European countries. Moreover, labor exports to Europe were widely supported by the government of Morocco[3.P.11]. The latter viewed the labor migration to be a temporary solution for country's unemployment problems and anticipated the return of migrants after having acquired the skills and knowledge in Europe.

However, many Moroccan who migrated to Europe did not return home. Especially, the instability in Morocco following the oil crisis of 1973 prompted many Moroccans abroad to stay in safe Europe. Meanwhile, new trends of family reunifications and second generation family formations kept on increasing the number of migrant Moroccans abroad [3.P.11]. As a result, the number of Moroccans living abroad increased during 1972-2014 more than ten times from around 300 thousand to over 3,4mln people.

Apart from external reasons, migration of Moroccans were preconditioned by internal factors. Historically, a large population of Moroccans have been living in rural areas. Rural population was as high as 71% of total population in 1961 and down to still high 40.3% in 2014. Yet, agriculture accounted for a mere 16% of country's GDP in 2014. Lack of jobs and lack of prospects prompted many young Moroccan to search for opportunities elsewhere.

Graph 7. Role of agriculture in Morocco

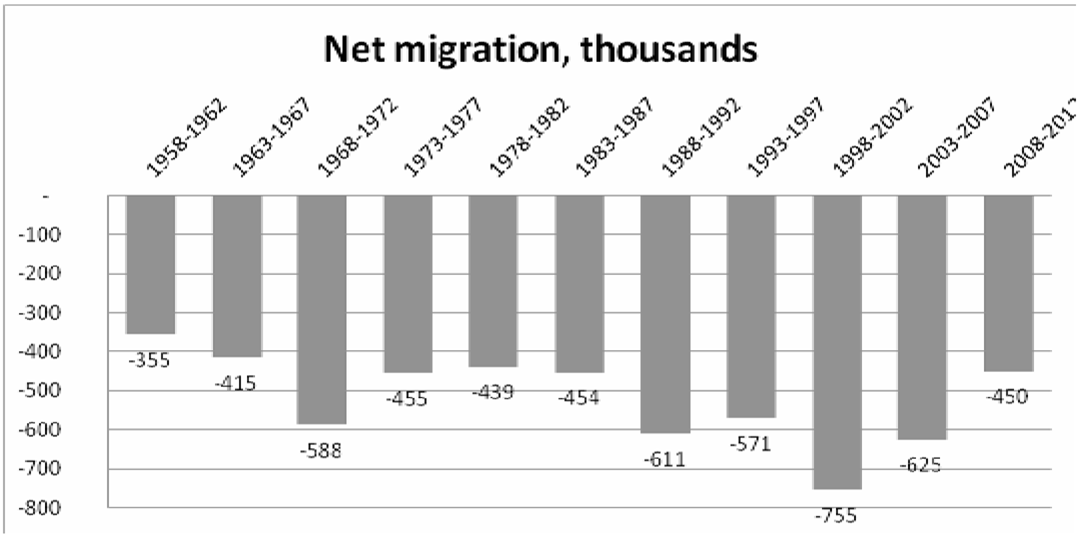


During the post-independence period, Moroccan government has been persistent in supporting international migration for both economic and political reasons. Migration was a tool to ease possible social and political tensions which could arise, especially in rural areas[4.P.3]. Migration helped the government to neutralise otherwise active young population from engaging in political activity and create additional sources of income for their families.

Patterns of migration

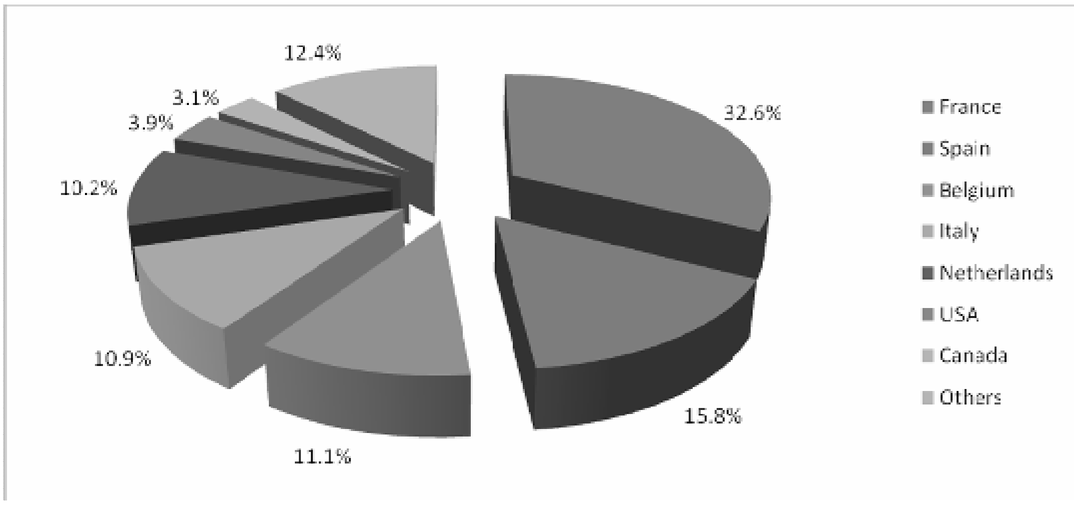
First peak of migration occurred during 1968-1972 with over 588 thousand people leaving Morocco as industrial growth in Europe prompted large scale export of labor. Although Europe tightened visa requirements in 1990s, second peak of migration occurred during 1988-1992 with 611 thousand people leaving Morocco bolstered by family reunions and second generation marriages. Third peak during 1998-2002 with a record of 755 thousand net migration was triggered by severe droughts in 1999 and 2000 and the resulting stagnation. Afterwards, there is a steady decline in net migration as economic situation in Morocco improved with late couple years seeing some migration from Spain to Morocco.

Graph 8. Net migration from Morocco



According to Higher Planning Commission in Morocco, there were 3,3mln Moroccans living abroad in 2006. This constitutes around 10% of country's population [5.P.6]. Of all Moroccans living abroad, 86% live in Europe and nearly third are in France. This is due to colonial pastand geographical proximity. French is unofficially the second language in Morocco and widely used atgovernmental institutions, media, mid-size and large companies, international commerce with French-speaking countries, and often in international diplomacy.

Graph 9. Moroccans living abroad

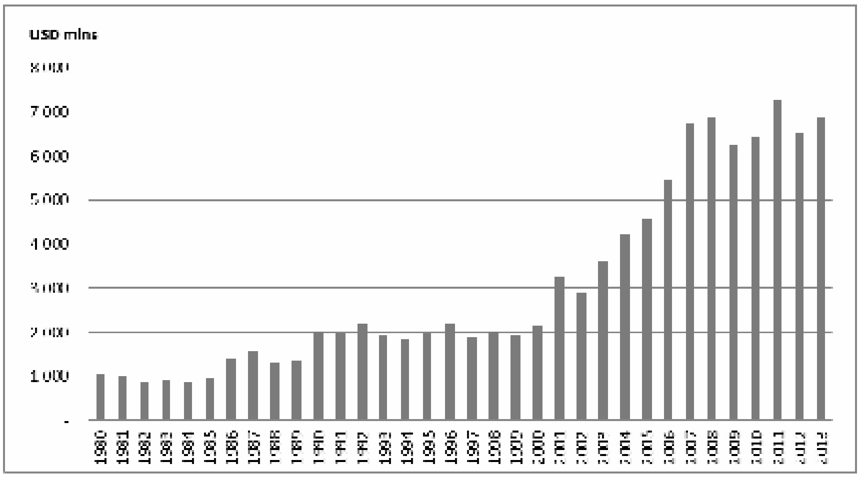


Source: http://www.hcp.ma/

Money remittances to Morocco

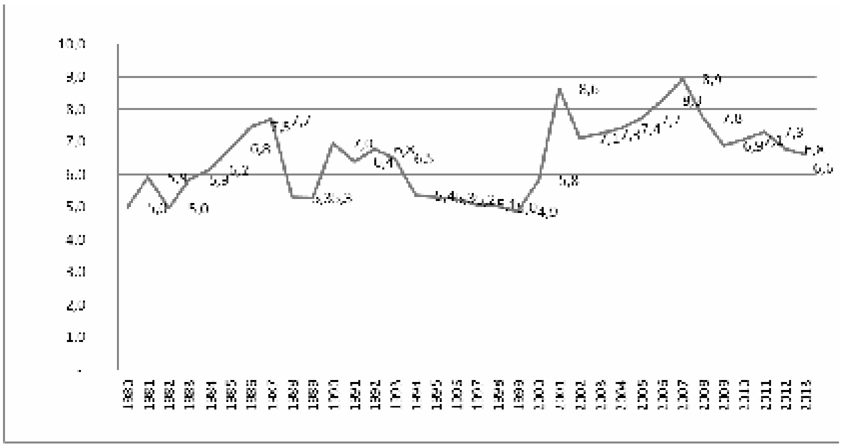
Foreign remittances have played an important role for the economy of Morocco. Large scale migration generated sizable international remittance which reached USD 6,8bln in 2014 and accounted for nearly 7% of country's GDP. Morocco, along with Egypt, is the top recipient of foreign remittances in Africa.

Graph 10. Personal remittances sent to Morocco (USD mlns)



Although personal remittances sent to Morocco during 2006-2013 have more than tripled compared to 1990s, as a share of GDP they accounted for 7.4% on average 2000s. During the past 6 years,personal remittances as a share of GDP, gradually declined from8,9% of their peak 2007 down to 6,6%. This is due to a strong growth in nominal GDP of Morocco which we can witness since mid 2000s.

Graph 11. Personal remittances sent to Morocco as % of GDP

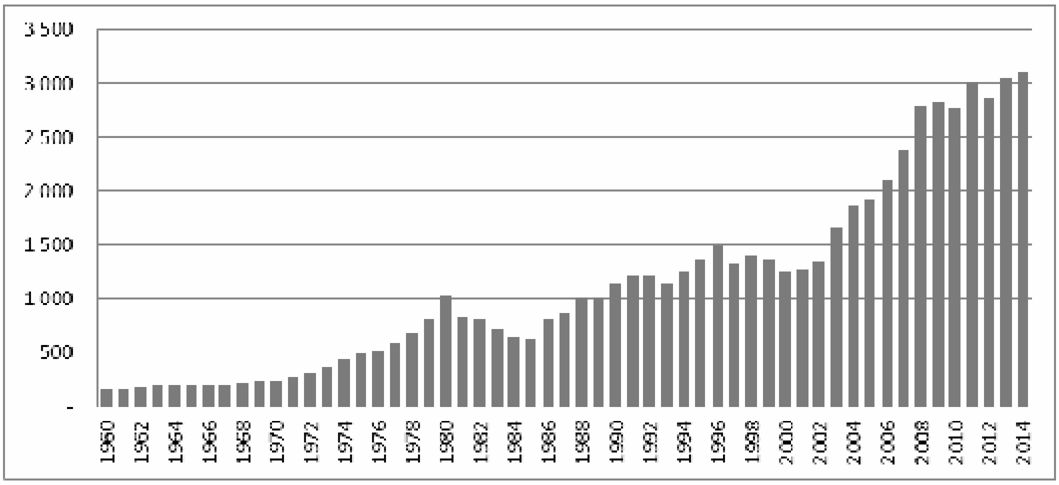


Apart from money personal remittances, Moroccans send in-kind remittances to their relatives back home (household appliances, furniture, cars, clothes and etc). In-kind remittances are estimated to equal to 25-33% of total transfers[6.P.35.]. Moreover, Moroccans abroad invest their money in the home economy. Housing sector accounts for over 80% of investments made by non-resident Moroccans in their home country[7.P.36.].

Comparing Morocco's economic indicators to receipient countries

Morocco's GDP (current US dollars) grew more than five-fold from USD 21.1bln in 1980 to USD 107bln in 2014. GDP per capita (current US dollars) grew three-fold from USD 1 042 in 1980 to USD 3 103 in 2014. Primary growth in country's GDP happened during 2000s. Obviously, Moroccans living abroad played a vital role in promoting the growth through their remittances and investments.

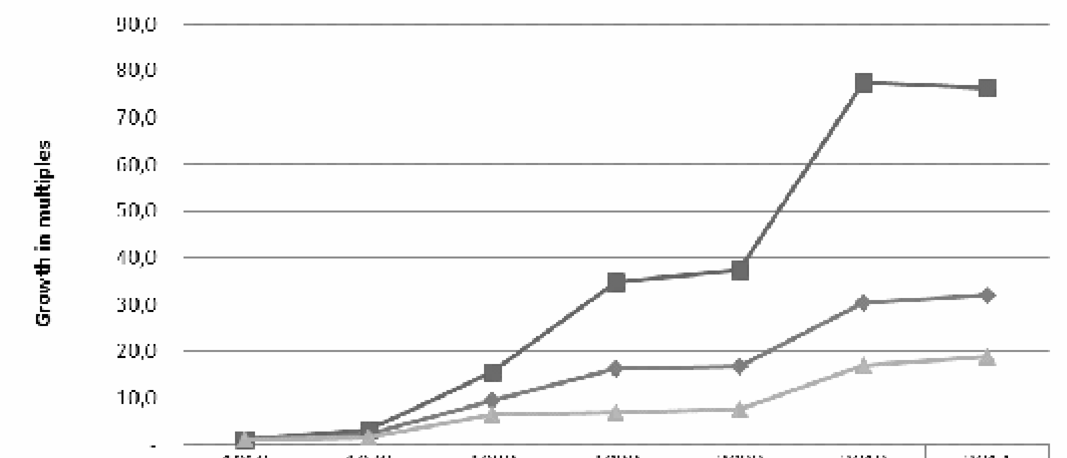
Graph 12. GDP per capita in Morocco (current US Dollars)



Was the above economic growth impressive? If compared to countries – recipients of labor, then the answers is "No".

Despite the achieved growth in its GDP per capita (at current USD), Moroccan growth lags behind the growth of its main labour importers. If we take GDP per capita of 1960 as equal to one, then Morocco managed to increase it by 17,6 times from USD 165 in 1960 to USD 3103 in 2014. In comparison, France increased its GDP per capita by 31.9 times from USD 1343 in 1960 to USD 42 732 by 2014. Spain, the second largest recipient of Moroccan migrants, increased its GDP per capita by 76.3 times from USD 396 in 1960 to USD 30 262 by 2014!

Graph 13. Multiple growth in GDP per capita (1960 figure equal to 1)

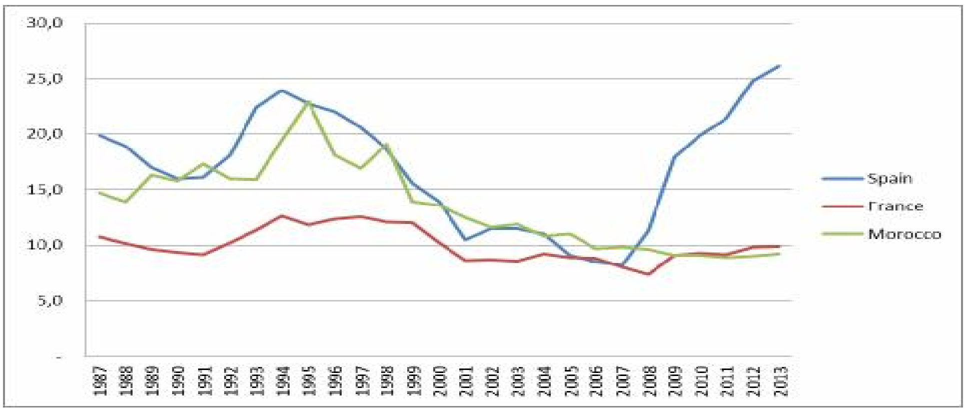


	1960	1970	1980	1990	2000	2010	2014
France	1,0	2,1	9,5	16,3	16,8	30,4	31,9
Spain	1,0	3,0	15,6	34,7	37,3	77,5	76,3
Morocco	1,0	1,5	6,3	7,0	7,7	16,9	18,8

The starting point, i.e. state of economic development back in 1960, was not at par, whereby France stood at a much higher level of development. The latter makes the Moroccan growth look even bleaker, as achieving higher growth rates for a developed economy is generally more difficult than for a developing economy.

Moreover, labor exports did not help Morocco achieve objectives of low unemployment rates until mid 2000s. Only by mid 2000s, unemployment rate went slightly lower than 10% and thus matched that of France, whereas the debt crisis and subsequent cuts in public spending caused the unemployment in Spain to shoot up to 25%.

Graph 14. Comparing unemployment rate, %



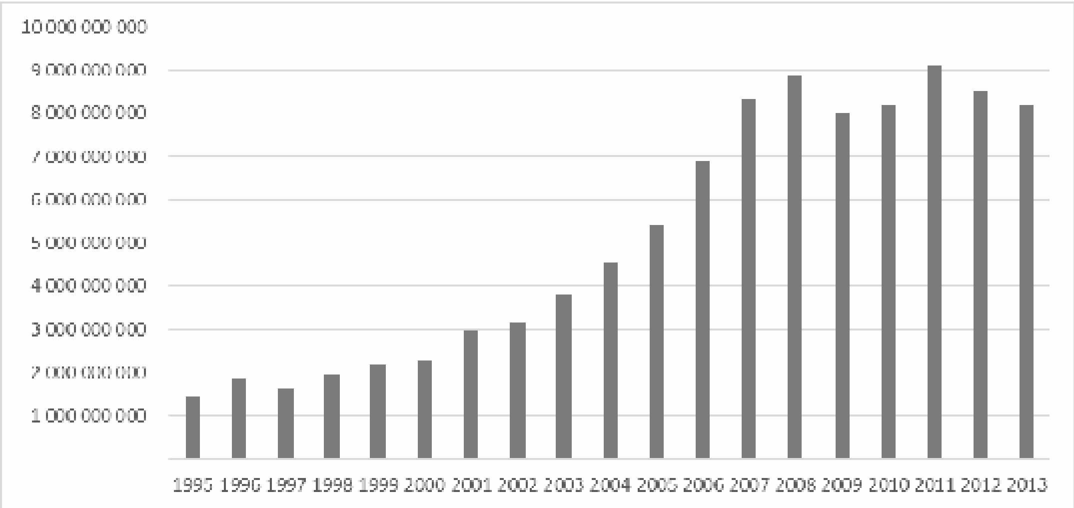
Surprisingly, reduction in unemployment rate in Morocco below 10% happened during the period when the labor migration started to fade.

In short, the economic impact for Morocco from its labor exports policies were not as anticipated - return of skilled migrants did not materialise, unemployment problems remained, and the economy grew at a slow pace.

Economic development of Morocco in 2000s

Although the economic growth in Morocco was not impressive, economic reforms which were initiated by King Hassan II in 1990s and continued by King Mohammed VI in 2000s yielded some positive results. The government stabilized the economy, liberalized foreign trade and promoted tourism. As a result, exports grew and accounted for 36% of country's GDP in 2014 up from an average of 22% in 1980s. At the same time, increased openness and international economic integration of the country attracted tourists, mainly from Europe. International tourism brought in USD 8,2bln in 2013 and accounted for nearly 9% of country's GDP. Thus the contribution of the tourism sector surpassed that of foreign remittances.

Graph 15. Receipts from International tourism in Morroco (current US Dollars)



It is because of these economic reforms, that job creation has improved in Morocco and unemployment was brought lower than 9% since mid 2000s.

Concluding remarks for Morrocco

Experience of Morocco in labor exports and migration question the widely believed myths:

- **temporary nature of migration –** initial expectations of the Moroccan government that labor migration had a temporary nature and that migrants would return home well skilled and experienced did not materialise. Once settled in a foreign country, workers not only did not return but also caused second and third waves of migration, i.e. familiy reunion and second generation marriages and thus caused the Moroccan diaspora abroad only to increase.
- **labor exports promote economic growth through remittances –** without denying the importance of remittances to families of labor migrants, one can conclude that remittances and thus labor exports do not necessary improve economic growth. In reality, large scale exports of excess labor may even divert the attention of the government of the necessity to carry out economic reforms that would attract foreign investments and create jobs. Moroccan economy failed to achieve growth rates which could match or exceed the rates experienced by major recepients of labor, i.e. France and Spain. Moreover, better economic growth rates in mid 2000s happened at a time when labor migration was fading and when economic reforms started to generate jobs.
- **Labor exports help reduce the unemployment -** for a long time untill 2000s, Moroccan official unemployment stood at 15% or higher. Although, labor migration can help local laborers in finding the jobs, labor migration also diminishes local consumption, and detaches the most active and assertive part of working age population from the local employment market.

Conclusion

Outward migration of migrants be it from Philippines or from Uzbekistan is a reflection of lack of jobs and/or low pay for skilled and non-skilled labor in the country in comparison to available opportunities elsewhere.

Outward migration will help provide social protection to sending families by increasing their disposable income, stimulating domestic consumption, and improving balance of payments in the country. However, in the long-run a country which manages to create sufficient jobs and thus develop domestic production will eventually perform better (other things held constant) than that which relies on export of labor. Large labor exports may lead to lower state revenues forcing the government to keep higher taxes, which will cause lower foreign direct investments and hence lower economic growth.

Often disregarded, social impact will too be undesirable. Migration of labor often creates such problems as:

- Long separation tend to increases family divorce rates
- Long separation may result in reduction of birth rate and accelerated aging
- Less parental attention may lead to increase of drug and crime abuse by children
- Excessive and often heavy work conditions of blue collar migrants abroad may cause their partial or full disablement and may increase the risks of illness transmission

- Simple and sudden administrative measures to prevent labor migration will not benefit, in fact, it will damage the economy. The economy will lose vital foreign exchange remittances. Loss of large amount of remittances, influx of unemployed workers will destabilize the economy and increase social tension.
- Instead the government has to employ strategies that will gradually reduce labor exports by the way of creating jobs or incentives for job creation domestically. This may include the following:
- Urbanization and development of cities, especially in the regions: this will increase internal migration and will serve as an alternative to international migration.
- Creating favourable regime for foreign direct investments through reducing combined tax burden, improving the efficiency of the banking sector, reducing state intervention, simplifying tax and customs legislation, and bringing predictability in legislation: as the case of Vietnam shows, foreign direct investment play a crucial role in rapid economic growth.
- Incentivizing agriculture: with 64% of population of Uzbekistan (in comparison to 51% of population of Philippines) living in rural area, improving and creating opportunities for doing business in agriculture will help keep promote fuller employment in the regions. Observations show that prevailing majority of blue collar migrants comprised of unskilled labor from rural areas.
- Paving the path for small and medium businesses, especially in services sector. Developing countries often lag behind developed countries in terms of contribution of services sector to GDP.

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SETTING THE AGENDA FOR TOURISM SUSTAINABILITY THROUGH MAKE IN INDIA

Dr. Saurabh Dixit[1]

ABSTRACT

Make in India means to strengthen Indian economy and Indian manpower. MII has more appropriateness in tourism. It has given us a chance to display oneness in diverse India. Present paper is a qualitative description work to showcase progress of Make in India.

Objectives

1. To get basic idea about Make in India
2. To assess growth of Make in India
3. To identify variables, responsibility Make in India

Introduction

Make in India is a slogan infuses fragrance of things manufactured in our own country. Is it possible, to do so, in open world/ economy (when World is open for global competition)? There is drastic change everywhere after GATT and liberalization. Every country has opened boundaries to others. Competition is open. There are changes in our country also. Now, we are habituated to see almost majority of global brands in India. Markets full of 'made in China' products. There is wave of global brands in India. There is an industry, in which we seek wave of Indian product and foreigner consumer. This industry helps to generate revenue without burning fuel. It means tourism is a non-smoke sector. In this industry, our product in purely Indian (like: Tajmahal) and client is foreigner (i.e. tourists from many countries). Market is whole country. It's really incredible in incredible India.

What is Make in India (MII)

In Make in India, we manufacture (dreams), Process (mind, body, soul) and package (paradise). It is consumed domestically and exported for happiness i.e. *khusia*, memories i.e.

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yade. Anyone took birth in this world, he is a tourist. Come India, see India, know India explained make in India. How to initiate make in India:-

- Make boutique hotel with ambiance of every state
- Make resorts
- Make theme parks

No one gets bore in Tourism. Your pleasure in my business. Tourism is there where there is no other employment.

The Make In India logo is taken from country's national emblem, in which wheel symbolizes the peaceful progress and dynamism of Indian tourism– a sign from India's enlightened heritage past, pointing the way to a vibrant economic future. The prowling lion stands for strength of our multifaceted Tourism product range, courage of huge Indian young working force, tenacity and wisdom of Indian spirituality– values that are every part as Indian (in true sense) today as they have ever been.

The official page of make in India has crossed 120000 likes and it's twitter handle has more than 13 K followers, all in a day's time.

Our whole goal is to make less number of products. We don't want to produce in excess but we will deliver psychic gratification i.e. inner happiness to everyone in the world,

The warehouses of the future will be the white-bodied bellies of Aircrafts (like: A380 or mode advance version). There's no way you'll ever have a product sitting in a warehouse for weeks or months, expecting it to sell.

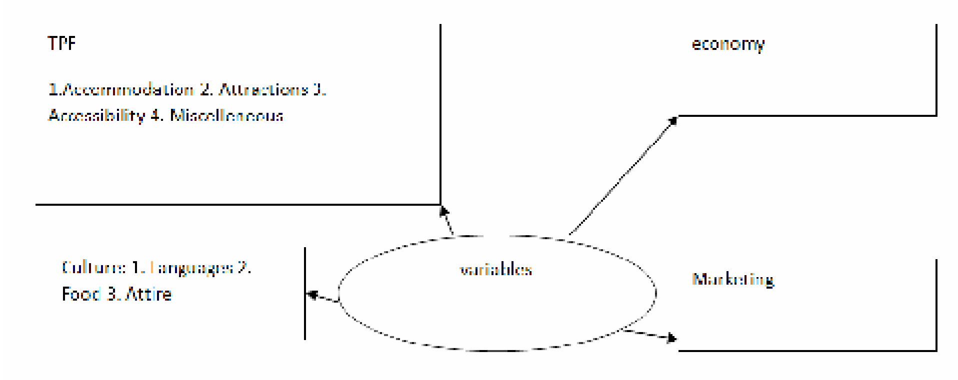

Diagram 1.0: What makes make in India

Why Make in India in Tourism?

India is the 16th most visited country with a share of 1.56% in the world's tourism receipts. India registered 7 million foreign tourist arrivals in 2014 registering an annual growth of 5% over previous year. India has diverse portfolio of Niche Tourism products Cruise, Adventure, Medical, Ayurveda, Health, Wellness, Sports, MICE, Eco tourism, Rural and Spiritual tourism and Domestic Tourism contributes to three fourths of the tourism economy.

The most challenging question is why India gets fewer tourists than a museum (like: Louvre in Paris) and Rajasthan gets less tourists/ visitors than a single monument (Like: Angkor Wat in Cambodia). This question is important. Tourism is the world's major and among fastest growing industries. Tourism as an industry takes jobs to people rather than channelizing people to jobs. It requires less amount of investment per job created than most other industries (like: IT, Automobile, banking etc.), is more inclined to give employment to women than men. It preserves culture in ways that the state never can.

Country's 240 million farm workers produce 15% of our GDP. The Make in India mission will offer them the choice of increased productivity by creating 100 million new manufacturing jobs and more service sector jobs. A Visit India mission aimed at attracting about 50 million annual foreign tourists would generate a similar number of new service jobs. (articles.economictimes.indiatimes.com › Collections › Tourists accessed on 24th June'2016)

Manufacturing and Service sectors are symbiotic (dependenet on each other). Tourism is a part of services. Both the sectors require and promote infrastructure, cleanliness, effective rules and regulation and revamped state institutions (like: *Gramodyog*, Co-operative societies etc.). But the traditional, 3As of tourism Access, Accommodation and Amenities need a fourth 'A' of Articulation. Because tourism decision making by groups and individuals is being revolutionized by online consumer reviews (in increasing millennial population and their dependency on internet), hyper local search (reduces time in decisions making), Google maps (due to flexibility), and the sharing economy, while global competition means that tourists and travellers, traditionally satisfied by hardware (tourism infrastructure), are being wooed with software (personal experiences). (articles.economictimes.indiatimes.com › Collections › Tourists accessed on 24th June'2016)

First phase of Indian Tourism lasted from Independence till the early 80s (establishment of ITDC) and was powered by our landscape. Second phase of Indian Tourism began in the 1980s with heritage hotels that married historical narrative with hardware (growth in Rajsthan). But, Third phase of Indian Tourism our goal of 50 million foreign and domestic tourist's needs enhancement of our current literature, music and folk festivals e.g. Tansen Samaroh, Taj Mahotsav) with new museums, Indian exhibits and Indian events (e.g.Ganga Arti at Rishikesh), strong enough for tourists to plan itineraries around them. 8.02 million foreign tourists arrived in India (in 2015). (https://en.wikipedia.org/wiki/**Tourism**_in_**India** **ACCESSED ON 20TH jUNE'2016)**

Period	**Details**
First phase	till the early 80s
Second phase	began in the 1980s with heritage hotels that married historical narrative with hardware
Third phase	our goal of 50 million foreign and domestic tourist's needs enhancement of our current literature, music and folk festivals with new museums

Table: 1.0

Being a customer centric, tourism and travel a priority women account for approximately 65% of the international tourism workforce. A report by McKinsey Global Institute quoted that India's GDP in 2025 could be higher by \$0.7 trillion-\$2.9 trillion, if an additional 68 million women could be channelized/ engaged into working outside homes, in many sectors including tourism and travel. It includes an integrated plan for roads (construction of good roads, highways), tourist (friendly) police, cleanliness of tourists spots, movie inclusions, government to government partnerships (our engagement with many countries has led to a direct flight, announcement of national tourism university i.e. National Tourism University (NTU) by honourable Tourism Minister and a skill development centre for hospitality), and much else. We also believe many problems will automatically be overcome with millions of new tourist arrivals, for example airlines don't increase connectivity without a huge number of tourists (today it is uncertain, if you travel by air from 'Delhi' to 'Gwalior') and a large number of tourists can't come without frequent/ live connectivity. (articles.economictimes.indiatimes.com accessed on 24th June'2016)

On the economic side for tourism and travel is it's strength. Estimates implicate it generates 78 jobs per million rupees of investment compared to 45 jobs in manufacturing sector. Identification of appropriate development strategies to achieve the "tourism sustainability" in the long term. (blogs.timesofindia.indiatimes.com/.../ringing-in-rajasthan-tourism-3-0-tourism-could accessed on 24th June'2016) Key strategies would be

a. Psychic gratification

b. Development of complete destinations

c. Network marketing (200 Indian origin parliamentarians all over the world, NRI populations, friends of India etc)

Make in India of Imapct

There will be two kinds of impacts of make in India in tourism. Tangible (economic upliftment, more employment, better living standards, , creation of world class facilities) intangible (cultural exchange, modernization, broad minded society).

The focus of Make in India programme is on creating jobs and skill enhancement in 25 identified sectors. These include tourism and hospitality, and other allied sectors like: automobiles, aviation, Information Technology/ ICT/ ITeS and Busines Process Outsourcing (BPO), maga and mini constructions, food processing facilities (e.g. Himachal Pradesh), media, recreation (as Madhya Pradesh Toruism Development Corporations's latest TV/ vedio advertisements implicates) and entertainment, wellness, railways (e.g. Maharaj Express, Tigar Express), space, roads and highways. "Zero Defect Zero Effect" is a slogan coined by Honourable Prime Minister of India, Narendra Modi ji which signifies tourism service production mechanisms. On the other side service have no defects. The process through which service is made has zero or negligible adverse effects on environmental and ecology. The slogan also aims to prevent products developed from India from being rejected by the global market.

Major highlights of the Make in India

Major highlights of the Make in India plans are as follows:

1. Strengthening of Invest India cell
2. Consolidated services and faster security clearances
3. Dedicated portal for business queries
4. Interactions with the users/visitors
5. Easing policies and laws

    In tourism, it will create

    a. Brand identity

    b. Encourage purchase for purpose

    c. Make our destination competitiveness

Preservation and promotion of "Indian heritage and cultural ethos"

This we may do in majorly three steps:-

a. Identification

First step should be to identify new organisations.

b. Preservation

Preserve make in India initiatives.

c. Promotion

Promote successful make in India ventures.

Let us market Pitha, Pokhal Bhat of Odisha, Kaladi Kulcha of Jammu, Wazwan (multi-course meal in Kashmiri cuisine) and Gushtaba of Kashmir, Chicken Curry of *Punjab*, Khamad, *Khakhra* and *Khandvi* of Gujarat, Bamboo Steam Fish, Vada and Medhu Vada of Karnataka, Khaja and Inarsa or Litti Chokha of Bihar and Kebab of Lucknow (Uttar Pradesh) and Puran poli of Maharashtra. Synergism of "tourism sustainability" with the Indian Tourism Industry

Under this

a. Let us create long term tourism development plans
b. Let us ensure local community participation at identified places
c. Let us do social-economical-cultural-moral impact assessment on regular basis

Make in India Model

1. Make in India (Product)
2. Made for India (Economic)
3. Suite International Platter (Sale)

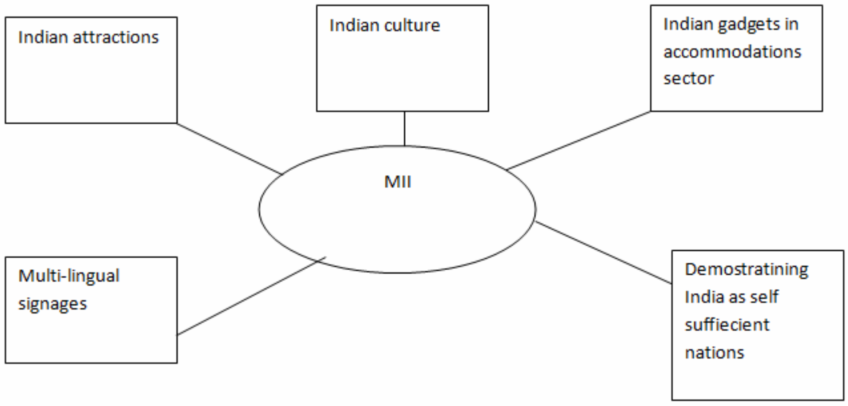

Diagram 1.1- Make in India

Project to play critical role in sustainable India

Prime Minister Narendra Modi ji's initiative of Make in India, Digital India, Startup India Smart cities, Power sector reforms all are aimed at country's economic growth and all these have impact on tourism growth in India. The trickle of investments from abroad under 'Make in India' scheme is expected turn into deluge once the various steps being taken by the government put into action. Even RBI's cumulative rate cut of 125 basis points works out to be a positive step. Only we need to ensure demand is picked up. The lack of good and efficient physical infrastructure provides the government with an opportunity to ramp up public expenditure in sectors that would natural be crowded with private investment. Accordingly government has planned larger scale investments.

Investment

Investment is key to progress or development in any area. More money infused in any acuity means there would be more synergy in progress. India facilitates the risk adjusted returns of investment to financial capital. So, global financial capital feel secure in the country about the investments due to natural development or growth. Many state government's has been allowed to have their own land acquisition laws. This offers a opportunity for the states to come with their own laws. Hence, competition will be seen among the states. Tourism policy will be attractive to the industry. 100% FDI is allowed under the automatic route in tourism, travel and hospitality (subject to applicable regulations and laws). This will make "MAKE IN INDIA" a reality 100% FDI's allowed in tourism construction projects include development of hotels resorts and recreational facilities. (www.icsi.edu/webmodules/icsiweb/.......FDI accessed on 25th June'2016)

There are many initiatives taken by government:-

1. Subsidized tend cost
2. Relaxation in stamp duty
3. Exemption on sale/lease of land
4. Prime tariff incentives concessional rate of interest on loans
5. Investment subsidies tax incentives backward area subsidies
6. Special interest packages for major projects.
7. Investment through Public Private Partnership (a case of Madhya Pardesh Tourism)

Results are also visible:-

5. Madhya Pradesh Tourism has started inviting proposals from private players to open establishments at various places.

6. In order to sustain the growth visible in tourism after the introduction of e-tourist visa in 2015 (number of countries may be increased in future).
7. The expected growth of the industry in future also has provided its players an opportunity to invest in new business technologies as Busienss Inteligence, CRM and client handling tools and latest safety and security systems and to venture in to new market segments such as Cruise Tourism, where India has less share in comparison to world Cruise tourism market and MICE market.

Trends

The UNWTO has forecasted industry's (tourism) growth by 8% per annum between 2008 and 2016. Foreign Exchange Earnings (FEE) from tourism industry are likely to show (annualized) growth of 14% during the same period. This is a very optimistic sign about progressive growth of Indian tourism in coming days. (www.moneylivemint.com accessed on 20th June'2016)

A increasing recognition of tourism, travel, events and allied industry's contribution to more employment, beter economic development, the availability of improved and international class infrastructure, focused and aggressive marketing and centric promotionl efforts, more liberalization of air transport, growth of online travel portals growing intra-regional cooperation (for example in SARC countries) and more effective Public – Private Partnerships (like in Madhya Pardesh Tourism) are seen as key divers for tourism and travel in the future.

Tourism Plant Facilities (TPF)

For investments under make in India's Policy the presence of world class hospitals (like: Apolo, Fortis, Medanta for medical tourism) and skilled medical professional presents India as a preferred destination. A vast, beautiful coast line (e.g. Gopalpur in Odisha), virgin forests (e.g. Satpuda Forest in M.P.) and undisturbed idyllic island (e.g.: Lakshdweep) make this a choice destination for cruise tourists where opportunities are great. Rural tourism (e.g. garhwal area) segments with Rural life art, culture, heritage in villages that have core competence in art, Craft handloom (e.g. Chanderi), textiles natural environment. This makes India an automatic choice for "Experiential Tourism" destination for new age tourists.

Already good number of investors specially in tourism and hospitality field quantify about Make in India in tourism field. Project with Accor (France) Four Season's Group (Canada), Starwood hotels, Expedia and Marriot Hotels (USA), Premium Travel Inn, Cox & Kings (UK), Jumerah (UAE), Mandarin Oriental (Hong Kong) have invested in a big way and boosted India's economy. This segment thus also offers opportunities across sub-segments such as Time Share Resorts, Convention Centers Hotels on highways. Entertainment Amusement Park, Shopping Malls, Restaurant business and tourism education institutes (e.g. Indian Institute of Tourism and Travel Management, IHMs, FCI). To make this process a reality, government has announced tax incentives, investment linked deduction under sector 35AD of the income tax act is in place for establishing new hotels in 2 star category and above all over the country. This permitting a 100% deduction in respect of the whole or any other expenditure of a capital nature.

Enhancing the provision of natural development of Toruism Plant Facilities networks through the maintenance of links between nation's entry and exit points provide Indian tourism to grow in a sustainable fashion. (www.ibef.org on 26th June'2016)

Conclusion

There is a need to develop an attitude towards practicing the sustainability not even on occasions, but as a daily routine practice. The comparison should draw clear line between growth (quantitative) with development (qualitative) on a consistent basis. An "era of outsourcing" should be taken seriously by policy formulators. The synergy must be set up between inherited culture and contemporay cultural practices for sustained future. There is a need for engaged 'indigenous people' in synergism. For the survival purposes, socioeconomic development is necessary at the present time. In tourism, Make in India is interpreted as **"Make India More Attractive"** or **"make India more authentic"**. Develop more "Indian + Ness" i.e. combines Indian Heritage + Tradition + Values+ Ethics, makes a complete Indian product and present it. The combined effect of combining three A's need to implement: Attitude, Adaptability & Accessibility and we have to decide "How much is too much in terms of tourism as a sustainable business?". We must also consider following points:-

- Tourism sector must be sustainable and should be **driven by a revolution**
- For example: The present conditions of rivers, heritage sites, museums, villages in India need to be addressed
- There is need to develop **aqua based tourism**
- The focus must be given to **creating employment & innovate entrepreneurship**
- The synergy must be set up **between inherited culture and contemporary cultural practices**
- There must be "Need", but not "Greed"
- We have to decide **"How much is too much?"**
- There is a need to set synergy between **infinite speaking and thinking**
- The consistent **comparison between growth (quantitative) with development (qualitative)** should be done
- During the visit one must experience **interior lifestyle of indigenous people**

- The policy makers should also analyze the **negative aspects of policies along with the positive ones**
- There is a need to consider and **understand the cultural needs** because local people have to face the after effects
- That was an empirical study of crafts viz. Kalamkari Printing; Kandapalli task; Dharmavaram silk sarees, chanderi handicraft and crotched lace work
- Proper education of artisans
- The issues of **credit system for running the business**
- Cost burden of raw materials
- To include other sectors under the scheme DWARAKA (Development of Weavers for *Kalamkari*)
- The rural artisans should be included
- There is a need to develop an organized craft framework
- A significant role played by people, especially indigenous people in setting the synergy between tourism sustainability and industry.
- The importance should be given to involving people and it should also come from tourism practitioner.
- To set the synergy, the three parameters viz. Globalization, Sustainability & Development should be considered.
- There is a need **to highlight the tourism system, especially in less developed states**
- To practice sustainability as a daily routine activity.
- Tourism impacts on fragile areas where concrete jungle is constructed
- Commercialization & its combined impact on tradition, culture etc.
- For survival, socioeconomic development is a must
- Compared Inbound tourism with Outbound tourism in India and need to raise the standards of Indian tourism attractions to compete with international attractions
- The policy makers should combine Destination Planning with Destination Development
- Tourism could be an indirect medium to provide a lifetime livelihood to local people

- In the case of community tourism in Nagpur, where 30 girls from 6 to 7 villages picked up under the Badhtey Kadam tourism scheme under Forest dept. They are stitching the uniform of wildlife guides and now multiplied their revenue.
- The major gap is lack of budget allocation for tourism sustainability
- There is a need to teach the communities to develop an attitude for sustainability
- There is a need to minimize the gap of affordability in tourism and hospitality education
- The immediate attention should be given to decreasing in number of girls joining tourism and hospitality sector because of societal reputation.

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Interviews

1. Professor Jyostna Patil, Nagpur

LOGICAL ORGANIZATION OF INVESTMENT CLIMATE AND HIS INFLUENCE ON INVESTMENT POTENTIAL

***Naima A.Khashimova*[1]**

ABSTRACT

In article the logic maintenance organization of investment attractiveness is revealed with the basic scheme of National creation model. Moreover, favorable investment climate of Uzbekistan on the basis attractive investment is analyzed. Research concludes efficiency of this methodological approach by actual status of country while shortcomings of investing are concluded for the further studies.

KEYWORDS : *Investment, investment policy, investment attractions, investment potential*

INTRODUCTION

Problems of modernization and innovation development of economy in Uzbekistan demand steady escalating of investment potential. Moreover, the country that represents co-operating set of current and perspective investment resources, real and possible results of their use in space of a corresponding investment field.

Modern Uzbekistan is a leading industrial country in Central Asia, ensuring stability and promoting economic development of the whole region. In spite of difficulties, related to the world financial - economic crisis, the volume of Uzbekistan's GDP has grown by 8% 2014; industrial output grew by 6.3%; agriculture by 6.6%; services by 16.1%. Development of new foreign markets in 2014 provided an increase in exports to 15.4%. Share of medium and small enterprise sector in the GDP reached 54%.

Measures for improving the investment environment, which are taken in the country, have significantly increased the volume of foreign direct investments, attracted to the economy. If the share of foreign direct investments in gross investments in the first years of independence amounted to nearly zero, whereas in 2014 it was 85%.

Over the years of reform, total investments to the economy of Uzbekistan has exceeded 100 billion US dollars, 35 billion of which are foreign direct investments.

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Uzbekistan is among the top ten countries in gold reserves, natural gas, uranium, silver, copper, molybdenum and other rare metals and is a net exporter of these natural materials. In Uzbekistan more than 100 types of mineral resources, more than 2800 deposits and prospective shows of minerals are exposed.

The total energy reserves of Uzbekistan are sufficient for the coverage of the needs of the economy at least for 100 years. Generated electricity capacities fully cover domestic needs, but also allow export of electricity to other countries.

The country's electricity cost is 4,5 times below the average cost paid by industrial consumers in developed countries. Foreign companies, investing in Uzbekistan, get an opportunity to enter the largest and most dynamically growing markets among CIS countries, Asia and Europe.

Agreements on Most favored nations treatment with 45 countries, including USA, Japan, China, Korea, EU countries, and Free trade area between CIS countries, significantly enhance the competitiveness of goods, produced in Uzbekistan on external markets. Due to intellectual capacity, Uzbekistan is one country in Central Asia manufacturing a wide range of modern sedans and trucks, high quality agricultural machinery, chemical goods, textile, food products and building materials. Uzbekistan boasts almost 100% literacy.

Significant human and intellectual potential, corresponding to modern international standards of education are serious factors for the successful development of the country. In Uzbekistan more than 300 thousand students study in hundreds of universities and colleges for 850 professions. There are affiliates of leading European, Asian and Russian universities that operate in Uzbekistan. For example, Westminster International University, Singapore Institute of management development, Italian Torino polytechnic institute, Moscow state university and others.

Basic guaranties and rights of foreign investors are provided by the current legislation The Law "On Guarantees and Measures of Foreign Investors' Rights Protection" provides inviolability and protection of foreign investor property rights. Foreign investors are given the following guarantees:

- Stable legislation during 10 years,
- Foreign investments and other foreign assets are not subject to nationalization,
- Foreign investors' incomes derived in Uzbekistan can be re-invested into Uzbekistan or used in any other way at the discretion of a foreign investor,
- Insurance protection and guarantees against political and other risks.
- Incentives and Preferences

1. Taxable profit of legal entities decreases on the number of funds allocated for the expansion of main production and modernization.
2. For exporters, If the share of export goods and services is:
   - from 15% to 30% in the total sale – the fixed income tax rate is decreased by 30%;
   - from 30% and over in the total sale – the fixed income tax rate is decreased by 50%.
3. Items that are exempted from VAT:
   - from property sale, if property is sold within the framework of state property privatization;
   - turnover from the sale of goods, bought by legal entities on loans, extended by international and foreign governmental financial institutions;
   - turnover from the sale of property, transferred as an investment liability;
   - imported technological equipment, property and raw materials to be used in the production process.

5. When calculating tax on property of legal entities, taxable base decreases on the amount of:

   - equipment, financed by loan, for 5 years from the moment of its installation;
   - property, received in leasing, for the period when leasing contract is in force;
   - newly installed technological equipment – for 5-year period.

6. Besides, for exporters, if the share of export of goods, services is:

   - from 15% to 30% in the total sale – the fixed property tax rate is decreased by 30%;
   - from 30% and over in the total sale – the fixed property tax rate is decreased by 50%.

7. Legal entities exempted from property tax:

- newly established enterprises – within 2-year period from the moment of state registration.

4. Items exempted from customs duties:

- property, goods, services, technological equipment for establishing a production in Uzbekistan.

5. Along with customs and tax incentives, fixed for all Uzbekistan enterprises, there are a number of benefits granted to the enterprises, located in the regions of the country (except those located in Tashkent region and Tashkent city). These enterprises are exempted from profit tax levied on legal entities, property tax on legal entities, tax on modern services, utilities and development of social infrastructure, unified tax payment, obligatory deductions into the Republican Road Fund.

These tax incentives are applied if investments are made into the following sectors of economy;

- production of radio-electronic industry and production components for computers;
- light industry;
- textile industry;
- construction materials industry;
- industrial production of poultry and eggs;
- food industry;
- dairy industry;
- chemical and pharmaceutical industry;

The mentioned above incentives are granted if the volume of FDI is as follows:

- from USD 300,000 up to USD 3 mln. – for three-year period;
- over USD 3 mln. up to 10 USD 10 mln. – for five years period;
- over USD 10 mln. – for seven years period.

6. Within investment projects worth more than US$50 million and with a share of foreign investors no less than 50%, the construction of the necessary external engineering and communication networks will be carried out at the expense of budget funds and other domestic sources of financing.

Investment climate

For bringing in and effective use of investments, the certain terms usually named an investment climate are needed. In modern economic literature, this term is widespread very widely, but clear determination does not have until now. And it is not casual, as self this concept is characterized the very diffuse quality signs of the state of the economic systems. Absence of this concept does not mean certainly, that he in general does not exist. It talks only that concept investment climate yet not folded as the generally accepted scientific category, as development of this direction flows so stormily, that scientific thought did not yet produce the single going near his theoretical interpretation.

However, we will begin with the simple determination given in a financial dictionary. Here the financial understand “under an investment climate, political and other terms, having influence on activity of investments in the economy of country. Stability of government, presence of exhaust normative base qualificator rights for investors, assist establishment of favorable investment climate”.

These very diffuse determinations in some measure give an opportunity to present all breadth and many-sided nature of concept of investment climate, and apparently, therefore in works of the Uzbek scientists of more exact determination of category an investment climate we did not find. One is clear; an investment climate plugs in itself all totality of terms and factors, operating in a country.

Am orphism and diffusion of concept an investment climate over was gradually brought to appearance in economic literature of new понятия- by an investment attractiveness, the mechanism of management of that yet is only formed, and many questions, including methods of estimation, remain debatable. The feature of this concept is an attempt to measure her certain set of indexes. However, such attempts each time run into unsettle of especially theoretical problem of determination of category essence of this phenomenon. Examining this problem, part of authors interprets the concepts of investment climate and investment attractiveness as identical. Other considers that investment climate more wide and capacious concepts, what investment attractiveness. For example, in opinion of V.V.Kiruhin investment potential and well-known degree of investment risk form investment attractiveness that determines investment activity. According to his opinion, an investment climate is determined by investment activity and investment attractiveness (Fig.1).

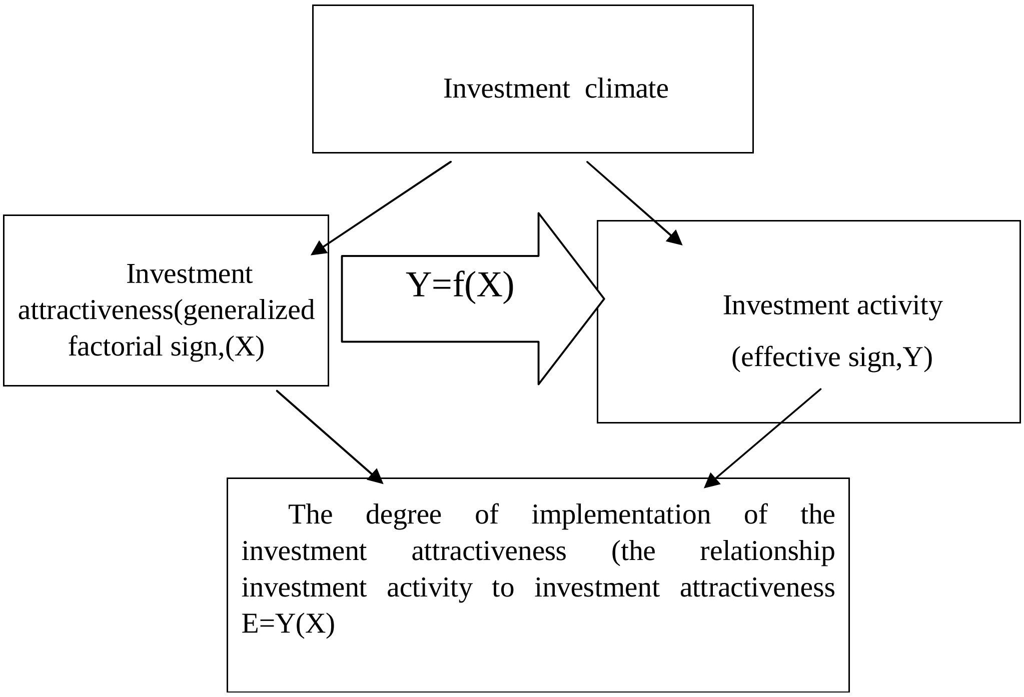

Fig.1. Connectional meanings investment attractiveness, investment activity, and investment climate on V.V.Kiryuxina.

Here we can see that following this stream in interpretation meanings evaluate investment climate like aggregate condition (factories), effective on wish investors realize investment, as investment activity – effective sign not only for investment attractiveness, but and for investment climate.

The third group the authors consider investment attractiveness like one from efficient account of marks investment climate. At that they think, that investment climate includes objective resource enterprise, sector, region (investment potential) and condition activity investor investment risk, that allow compare these meanings. From here, make conclusion about it, if investment potential exceed investment risk, we can talk about investment attractiveness.

As it was stated, investment attractiveness has a row of similar concepts in economic literature, an investment climate, is an investment image. But they are not identical, under a concept an investment climate is usually understood totality of economic, political, financial terms, having influence on an inflow internal and external to the investment image appears as a complex reflection of different aspects of investment climate in presentations of investors. From here evidently, that the system of investment activity plugs in itself next elements.

Different interpretations of concept of investment attractiveness inevitably conduce to different approaches in determination of her internal constituents reflecting or stability of the financial state of enterprise, a return on equity is a price of equities and level of the paid dividends. In the second it economic or socially economic, expediency of investing, based on the concordance of interests and possibilities of investor and recipient of investment, that provides the achievements of aims of each of them at the acceptable level of profitableness and risk. (Fig. 2.)

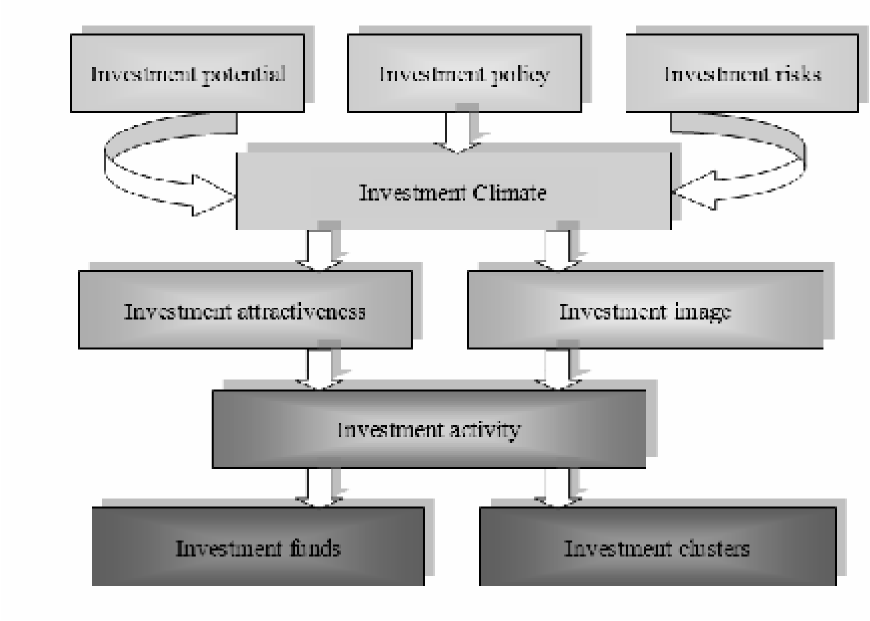

Fig. 2. The relationship of elements of investment activity

Investment attractiveness of the company, characterized position prospects, profitability, efficiency, and minimize the risk of investing in its development; investment attractiveness, as defined by the macro-level conditions (economic, legal, political, social, etc.), created by the state to all business entities, as well as foreign investors for profitable investment for the development of the national economy.

Dynamics of investment climate

Here we come to a very interesting conclusion that the investment climate has the properties of the statics and dynamics. In the static investment climate is characterized already achieved investment conditions, which are fixed at a certain time. In the dynamics of the investment climate is undergoing a very significant change and it all depends on the direction in which the changes are. These properties statics and dynamics inherent in both developed countries and countries with economies in transition. However, if in the first, the investment climate is very static, in countries with economies in transition, it overcomes the rapid changes. Therefore, for countries with economies in transition is more important than the dynamic characteristics of the investment climate. We think it is important because existing economic literature methodology for assessing the investment climate - scoring, rating, and other usually calculated only on fixing the static process, and therefore cannot fully meet the needs assessment of the investment climate in countries with economies in transition, including of course, and Uzbekistan.

Note that, the definitions of the investment climate that we give are based on necessity of creating specified conditions. Proviso that the name “condition” means here “the situation, in which something is being made” and “the circumstances, on which something is depended”. These definitions vindicate the dual character of the investment climate – its static (situation) and dynamic (circumstances). Situation so as circumstance are made up with the aim of ”investments activation”, “affluence of inside and outside investments”, and it means that conditions of favorable investment climate should provide the attractiveness of investing.

CONCLUSION

We are presented, that this conclusion is one of the most important methodical postulates of the theory of investing potential and it says that the base of forming and increasing investing potential is a favorable investing climate, which provides favor of investing by system of attractor.

It is particularly important that the category of “Investment attractor” is fundamentally different from the concept of “investment attractiveness”. Note that the notion of the investment climate has come to us from abroad. The newly formed young states, inherited from the former Soviet Union systems of socio-economic crisis, in desperate need of foreign investment. Potential foreign investors also talked about investment climate and investment guarantees. Loans, supply of technological equipment, construction of new enterprises carried out under the guarantee of the government. The need for investment was so great that the notion of the investment climate and investment attractiveness were identified with government’s guarantees and immediately assumed the character of an indispensable attribute of access to foreign investment. Unfortunately, the same approach could be seen in the economic literature to this day, when the investment climate and investment attractiveness refers only to ensure the attraction of investment resources only from external sources. As a result, reproductive investment process of own funds of enterprises almost completely absent from the theoretical analysis. That is why we have introduced a new economy category – generating investment potential. It covers local firm, local reproduction process of investment potential and attracting external investment resources.

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THE ROLE OF INFORMATION TECHNOLOGIES ON THE PREPARATION OF HIGH QUALIFIED ECONOMIC SPECIALISTS IN THE MARKET-ORIENTED CONDITION. CASE OF UZBEKISTAN

Qurolov Qobuljon Qulmanovich[1]

ABSTRACT

The way of educational development is based on the Uzbek model of country. This study covers the major factors of education system over economics specialist preparation. Moreover, investigation is conducted on international technologies with their possible influence on specialists of country. Paper concluded analyses of preparation in Uzbekistan with the drawbacks and its outcomes as whole.

KEYWORDS : Uzbekistan, education system, Uzbek model, economic specialist, IT influence.

EDUCATION SYSTEM IN THE REPUBLIC OF UZBEKISTAN

During 15 years of independence deep structural and substantial reforms and transformations in the system of higher education has taken place in the Republic of Uzbekistan. Main purpose of these reforms were to provide the adequate place of the Republic of Uzbekistan in the world community. Indeed, it was impossible to provide the independent economy, social and political stability, development of intellectual and spiritual potential of the nation without rebuilding the system of education and upbringing. The President of Uzbekistan Republic Islam Karimov, understanding this reality from the first days of independence, stated the necessity of deep reforms in the system of education and upbringing of new generation. The state policy in the field of education that could transform it into the priority sphere has been developed and conducted (Akimov & Dollery, 2006) .

Thus, beginning from 1991 the system of education has been reconstructed according to the requirements of independent state meeting the needs of the new era. This process was carried out step-by-step in correlation with the types and forms of education– pre-school education, secondary school education, secondary specialized, professional (vocational) education, higher education (Hasanova, 2016).

Before the independence 42 higher educational institutions, including three state Universities (Tashkent, Samarkand and Karakalpak), 14 pedagogical or language, 9 engineering-technical, 3 agricultural, 7 medical- pharmaceutical, 3 culture and arts institutions, as well as one economical, cooperative, physical culture and sports were functioning in the republic. Almost half of these institutions were situated in Tashkent (19), the rest were in Samarkand-5, Andijan-4, Bukhara-3. Thus, the third of higher educational institutions of the republic were situated in four cities.

Existing structural system of higher education and fields of its activity didn't meet the needs and requirements of economic, national, natural- intellectual, spiritual potential of the republic.

The way to provide the priority of education, transform the education into the democratic, humanitarian, create intellectual-social oriented system capable to open all the possibilities of the person was chosen during the first years of independence. The task was to train the young generation on the basis of national traditions and common to humanity values, patriots of their country with high moral qualities, as well as competent specialists possessing up-to-date knowledge and skills in chosen field, with initiative, and creative thinking. The above mentioned requirements were reflected in the decrees of the President, Resolutions of the Government as concrete programs of actions to reform the system of higher education ('Ministry of Foreign Affairs of the Republic of Uzbekistan — Uzbekistan and international organizations',).

The first document– Decree of the President dated September 17, 1991

«On releasing Republican state administrative bodies, as well as the system of public education from political parties » was dedicated to these goals. From this date it was prohibited for political parties to interfere with the activity of educational institution.

Since 1991 the structural reconstruction of higher educational institutions has been commenced. Three independent institutions – the Tashkent State Technical University, the Tashkent Chemical-Technological Institute and the Tashkent Architecture and Building Institute were established on the basis of the big Tashkent Polytechnic Institute. The Tashkent State University of Economics and the Tashkent Financial Institute were established on the basis of the Tashkent Institute of Public Economy. The Tashkent State Institute of Oriental Studies became independent from Tashkent State University. In 1992 on the bases of branches of higher educational institutions of Tashkent were established the Jizzakh Polytechnic Institute, the Karshi Engineering- Economic Institute, the Namangan Engineering-Economic Institute, the Navoi State Pedagogical Institute, and on the bases of the appropriate regional pedagogical institutions were established Andijan, Bukhara, Gulistan, Karshi, Namangan, Ferghana, Urgench Universities. The status of University were also given to the Tashkent State Institute of Foreign Languages, the Tashkent Institute of Agriculture. New higher educational institutions were established. The University of World Economy and Diplomacy was set up to prepare economists and diplomatic personnel of international level. Each higher educational institution had a specific program of reconstruction of form and content of education according to its new status.

With the purpose of providing the renewal of educational system the first law - «Law on Education» of the Republic of Uzbekistan was adopted on July 2, 1992. The priority of the sphere of education in social-economic and spiritual-cultural development of the country was stated in this law. Main directions of educational policy, structure and system of administration, rights and obligations of participants of education were defined in this document.

"The Institute for problems of higher and secondary school" set up on the basis of the Resolution of the Government of 1995 considered to be the basic research organization dealing with the development of perspectives of the development of higher and secondary specialised education, which developed its content and regulative-methodical documents.

On the initiative of the Ministry of higher and secondary specialised education the creative group to develop the complex republican program on the development of higher education was formed in 1996. This group, on the basis of analysis of local and foreign experience, as well as the tendency of the development of higher education, worked out the program in the form of "Concept of higher education". After the discussions in higher educational l institutions this document was published in republican newspapers for wide discussion taking into account the wide strata of society. Numerous feed backs and proposals confirmed the actuality of reconstruction of higher education along with all types and forms of education as a whole system.

Development and approbation of bachelor's program took place in 1996 in the Tashkent State University.

Thirst for science, education, knowledge is in the blood of Uzbek people. All the time enlightenment/spiritual sophistication, qualified education and professionalis m of Uzbek people were, and is remaining today as criteria to evaluate the person and respect to him. On the initiative and active participation of the President of the Republic of Uzbekistan Islam Karimov the "National Programme for Specialist Training" was developed and adopted by the Oliy Majlis (Parliament) in 1997.

Main purpose of this Programme is to train spiritually rich and morally mature, possessing up-to-date knowledge and taking active civil position, independently thinking specialists, capable of taking decision deliberately, or, in other words, upbringing harmoniously developed generation, capable of providing the progress and prosperity of Motherland in the new historical era.

The proper model of the system of continuing education aiming at training the personnel were developed on the basis of deep and wide scale studies of foreign experience, critical analysis of existing system of education. Thus, continuing system of education of Uzbekistan has been adopted. It included 12 years education consisting of 9 years general secondary and 3 years secondary specialised vocational education. Then comes the higher education consisting of two levels – Bachelor's and Master's Degree studies. National model also includes the pre-school education for the children of 6 or 7 years old, extracurricular (non-school) education to define the talent and interests of children, additional education for elder people for retraining and upgrading the qualification, as well as further education for preparation of scientific and scientific-pedagogical staff.

Implementation of National program is carried out in three phases. Structural reconstruction of the system of education, reorganization of existing educational institutions into principally new ones (academic lyceum and vocational colleges) were carried out during the first phase (1997-2001). As a result, nowadays 63 higher educational institutions and about 1100 vocational colleges and academic lyceum are functioning in Uzbekistan. 1 million 220 thousand young people are studying in these educational institutions.

During five years the normative-legal basis for the system of preparation of personnel were fully renewed and brought in line with the requirements of social and economic development of the country, new educational standards were developed and introduced into practice, unique concept of creating the educational literature of new generation has been implemented.

Key elements of the first phase of implementation of National program were the preparation and upgrading the qualification of pedagogical and scientific-pedagogical staff who could meet the modern requirements. State requirements as to upgrading the qualification, educational programs for the different categories of specialists were developed and introduced. The structural reconstruction of the institutions was carried out with the aim of upgrading the qualification, focusing on distance education on the scheme 2+2 or 3+3, i.e. the work of the teacher in his/her work place on the tasks set by the institution for upgrading the qualification during two weeks and defense of individual papers during the other two weeks(Calhoun, 2013).

PREPARATION OF HIGH QUALIFIED ECONOMIC SPECIALISTS IN THE MARKET-ORIENTED CONDITION. CASE OF UZBEKISTAN

Introduction of new model and educational standards required the creation of textbooks and teaching-methodological literature of new generation. The Government adopted a special resolution to solve this problem. This resolution stipulates the revision of existing textbooks and creation of new ones, as well as financial and moral stimulating of authors of educational literature. It was decided to develop cycle of lectures with their further publication. After the approbation they were gradually changed into manuals and textbooks. Until the end of 2003 higher educational institutions were fully provided with the educational literature on all disciplines (subjects). The work on creation of electronic textbooks, multimedia educational complexes including virtual laboratories and stands were widely carried out. This type of textbooks created the preconditions for approbation of distance education for the students of some disciples. To discuss the content and quality of texts of lectures, textbooks and manuals, their electronic versions were placed in the central portals (web-sites) of the Ministry of Higher and Secondary Specialised Education. Every teacher or student had a chance to use with the working outs of not only his/her institutions but educational materials of other educational institutions as well.

Place of economy specialized, professional- educated professionals in the process of the movement after obtaining degree and level from Higher educational places

The way of development up to higher educational institutions could be followed in Educational programs in the way of identical and taught in academic lyceum and professional colleges.

Practically all the higher educational institutions of the republic created their local area network and have an access to global network - Internet. Part of higher educational institutions are already connected to Republican educational network (Abdukarimov B.A, 2013).

Nowadays it is widening and modernizing. Educational laboratories of higher educational institutions along with the traditional laboratory facilities widely use virtual laboratory stands on the basis of ICT. The branches of chairs and laboratories are created in scientific laboratories and sectoral scientific research institutes of the Academy of Science aiming at efficient use of laboratory bases.

Fundamental libraries of higher educational institutions are equipped with computer, copying facilities and the means of exchange and transmission of information. The system of automatic forming the funds and search for information “IRBIS” is introduced in these institutions. Modern libraries, along with traditional funds of paper forms, have e-books, e-textbooks, which are developed by the higher educational institutions as well as purchased from abroad(Asgarov et al., n.d.).

International relations of higher educational institutions of Uzbekistan are developing year by year. Branches of International Westminster University and Russian Academy of Economics named after G.V. Plekhanov were set up in 2002 in Tashkent. Branch of Moscow State University named after M. Lomonosov opened in Tashkent in 2006. Nowadays Ministry of higher and secondary specialised education is working on the establishment of the branch of Russian State University of Oil and Gas named after I. Gubkin.

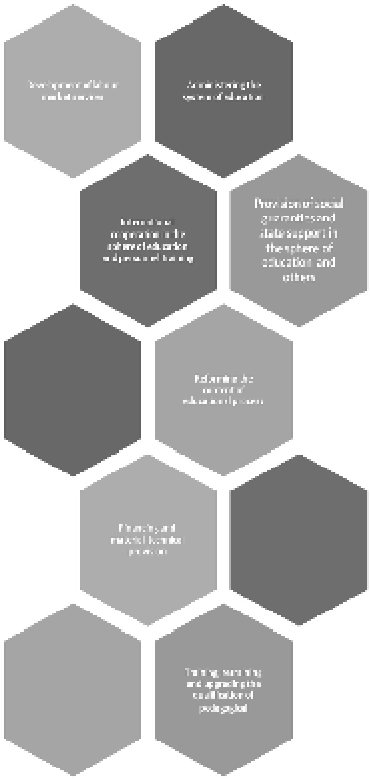
Samarkand State University is conducting Master’s degree courses together with the Bologna University (Italy). Higher educational institutions are also working on preparation of highly qualified specialists together with the Universities in Japan, China, France, Germany, Netherlands, Spain, etc. For instance, Weihenstephan University of Applied Sciences is conducting double degree master courses on agriculture and irrigation together with several agricultural institutions of Uzbekistan. Universities from Spain allocated a grant to develop the joint forms of preparation of specialists together with the Uzbek State World Languages University (Khalilov, 2014).

Close cooperation is established and developing with the number of leading Universities of foreign countries such as Belgian Institute of Translation/Interpretation in Brussels, Sorbonna University, Weihenstephan University of Applied Sciences, Humbold, Berlin and Munich Universities, etc. The Government of Japan rendered an assistance to the Tashkent Institute of Textile and Light Industry in the amount of 440 million yen to equip the Institute with modern textile equipment. Distance learning of educational programs is carried out in collaboration with Massachusetts Technological University and some other Universities of foreign countries. There are many citizens of foreign countries studying in the higher educational institutions of Uzbekistan.

Reforms in the field of education conducted in the Republic of Uzbekistan allow the national system of continuing education integrate into world educational area.

The “Law on Education” and “National Program for Training Personnel” of the Republic of Uzbekistan, adopted on August 29, 1997, are the main normative-legal basis determining the reforms and substance of the sphere of education in the Republic of Uzbekistan.

Number of sub-legislative directive and normative acts in the field of education are adopted with the purpose to implement the above mentioned basic documents during the recent years:

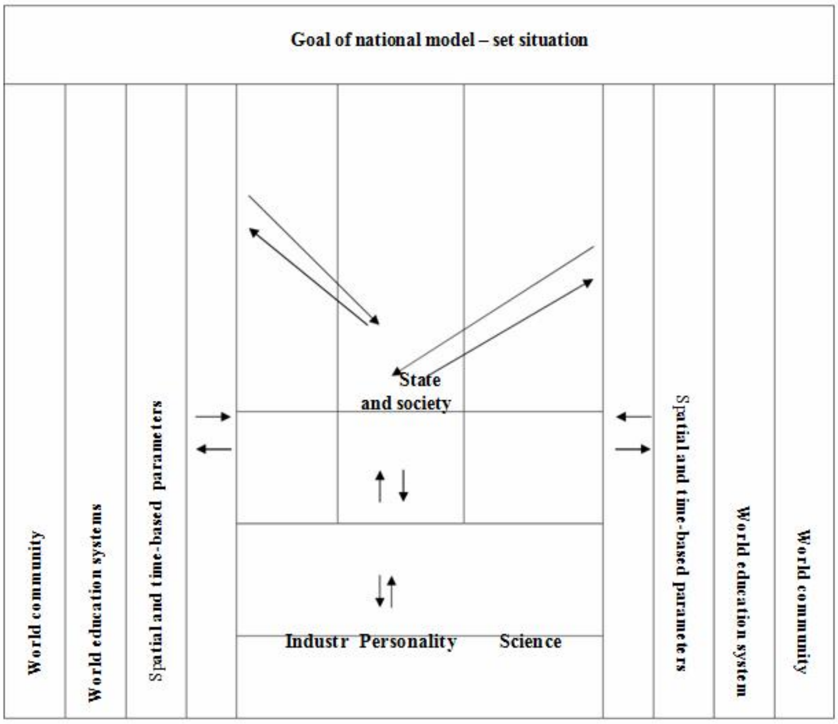


Dozens of Decrees and Resolutions of the President of the Republic of Uzbekistan, more than 70 regulations and resolutions of the Cabinet of Ministers, as well as normative-legal documents adopted in the framework of the authority of the Ministry of Higher and Secondary Specialized Education of Uzbekistan are among them.

THE NATIONAL MODEL OF EDUCATION – THE WAY TO ACHIEVE STABILITY AND PROGRESS ON ECNOMIC SPECIALIST PREPARATION

Scheme 1

National model of training personnel



Original state as to 1997, Commencement of reforms

Table 1 : Distribution of higher educational institutions subordinated to different ministries, agencies and organizations

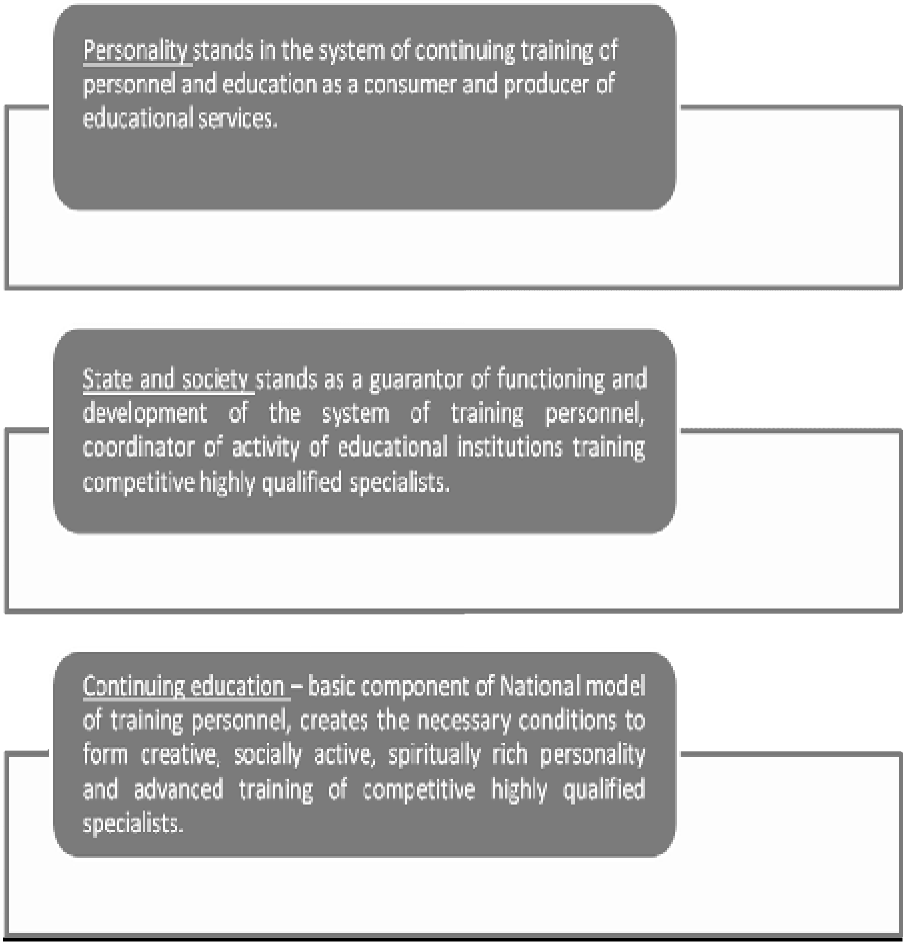
№	Ministries, agencies and organizations	**Total number**	**2000-2001**	**2001-2002**	**2002-2003**	**2003 – 2004**	**2004 - 2005**	**2005 – 2006**
1	Cabinet of Ministers	1	1	1	1	1	1	1
2	Ministry of Foreign Affairs	1	1	1	1	1	1	1
3	Ministry of Higher and Secondary	32	33	33	33	32	32	32
4	Ministry of Health	10	10	10	10	10	10	9
6	Ministry for Cultural and Sports Affairs	6	6	6	6	6*	6*	6*
7	Agency for Post and Telecommunications	1	1	1	1	1	1	1*
8	Ministry of Justice	1	1	1	1	1	1	1
9	State Stock-Holding Company «Uz bekistan Railwa ys »	1	1	1	1	1	1	1
10	Ministry of Agriculture and	4	4	4	4	4*	4*	4*
11	Ministry of Public Education	5	5	5	5	5	5	5
12	Navoi Mining-Metallurgical	-	-			1	1	1

13	Tashkent Branch of Russian Economic Academy named after	1*	-	-	1	1	1	1
14	International Westminster University in the city of Tashkent	1*	-	-	1	1	1	1
15	The branch of Moscow State University named after M. Lomonosov in the city of	1						1
Total		**66**	**62**	**62**	**64**	**65**	**65**	**66**

Notes:*) these higher educational institutions have regional branches

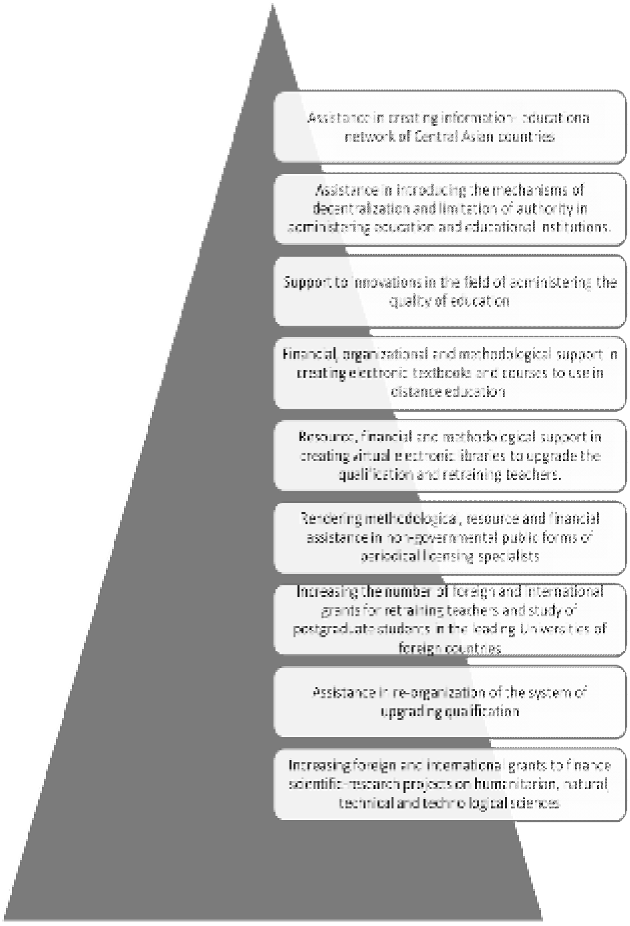
On this way, Ministry is conducting purposeful systematic development of new generation of State educational standards of higher education. Joint working groups of specialists with the Ministry of Public Education to provide efficiency and quality of preparing specialists. This group began the work on the development of unique indissoluble model educational programs which cover the general secondary, secondary specialized, vocational and higher education. Taking into account the importance of the sphere "Informatics and information technologies" was taken as a first subject to start with. Higher education in the republic is carried out by 12 organizations. Three higher educational institutions are set up as a result of international cooperation. They are: the Tashkent branch of Russian Economic Academy named after G.V. Plekhanov, the branch of Moscow State University named after M. Lomonosov in the city of Tashkent and International Westminster University in Tashkent.

NATIONAL MODEL OF TRAINING PERSONNEL



Science and industry take the function of the customer and consumer in the system of training personnel taking active part in training, retraining and upgrading the qualification of specialists of appropriate level and profile. Moreover, deepened, profiled educational programs on the disciplines and directions of studies in academic lyceum. Professional programs for professional colleges also cover special courses of academic subjects.

PROPOSALS ON COOPERATION



CONCLUSION

To sum up we have already created our major conclusions on the way of development as whole. In Uzbekistan the case of deployment includes quality of education, educational standards and educational programs – for Bachelor's degree, collaborative studies over international institutions. ICT is one of the major factor while preparing high qualified specialists on the economic sector. Qualified professionals are considered as a major factor of development as whole. Uzbekistan as one of the leading states in Central Asia has fulfilled a number of series in order to make better results and features at all.

In higher education system has been diffusing Innovative Technologies while providing better materials and database of resources for scientists and academicians. Learning and working over one purpose, aim and goal can bring both quantitate and qualitative consequences.

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THE MAIN WAYS OF THE IMPROVEMENT OF FINANCIAL REPORTS IN THE REPUBLIC OF UZBEKISTAN (ABOUT BALANCE SHEET AND THE REPORT OF FINANCIAL RESULTS)

Samiddin Nizamov Tashnazarov[1]

ABSTRACT

This article describes how the transition to international standards of accounting in the Republic of Uzbekistan, chosen by improving the regulatory and legal documents on the work carried out and recorded. In accordance with the national standards of accounting procedures to create the order of a report on the balance sheet and financial results, its content as well as its condition and the ways of improvement. The provided conclusions in the article help us to adopt financial reports in accordance with International Financial Reporting Standards.

***Key words**: International Financial Reporting Standards (IFRS) National Standards of Accounting (NSA), balance sheet, report on financial results, financial reporting methodology.*

Uzbekistan is one the countries which are developing with rapid pace, increasing the share in the international economic relations. It has support for foreign investment and companies which are active in the global financial markets and raw materials exchanges. For further development of relations as well as the inflow of foreign investment into the country and to create a friendly investment environment, it is necessary to coordinate current accounting system into international accounting standards, to study international standards and to apply them. Thus, to assess the current stage of development, the most important forms of financial reporting, which is a report on the balance sheet and financial results to improve is the most urgent task.

Uzbekistan has chosen the unique path of the transition to international accounting standards. Through the creation of national accounting standards which is compatible with the requirements of international accounting standards, as well as to meet the needs of the national economy, and it is called the step by step stage of transmission to international standards.

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On August 30, 1996, "Accounting Law" was approved. This law reflects the legal aspects of meeting the requirements of the international accounting principles and functions of the basic principles, financial reporting issues and its consolidation.

Since August 1998, in the Republic of Uzbekistan on the basis of the law, there have been created Conceptual Basis of Creating and Presenting Financial Reports and 23 National Accounting Standards (NAS).

Decree of President of the Republic of Uzbekistan from April 24, 2015 "About measures on applying modern methods of corporate management in joint-stock companies" plays an important role. The decree represents the measures like in-depth analysis of international experience and on the basis of it applying modern corporate managing practices, the establishment of joint-stock companies with foreign capital, in accordance with modern international standards and requirements of the market economy, the introduction of new departments and positions. Furthermore, radically restructuring joint stock companies' management structure, cooperation with leading foreign educational institutions, creating opportunity for openness and transparency of joint stock companies, as they are based on international standards of audit and financial reporting functions entrusted to publish the information.

In April, 2016, new edition of "Accounting Law" was adopted. The main purpose of the law is organizing and leading accounting, the regulation of relations in the sphere of reporting. The law defined tasks on switching into international financial reporting standards.

Based on the contents of above mentioned documents, we offer the main directions of *improvement* of *methodology of financial report* which include the followings:

- creating the definition of financial report which includes the main characteristics of it, making scientific and practical classification and description of which rules (principles) which form the basis of formation and providing information in financial reports;
- the issues of journal entries, adjusments, adjusting the process, cycle and procedure of preparing and presenting financial report into international standards;
- based on the interests of the users of the information, using up-to-date experience on the methodology of financial reports' information, including the company's assets, liabilities, estimation of private funds and financial results and their presentation of related information;
- Making forms of financial reports closely linked with each other. Furthermore they should be easily converted to international standards and understood by not only domestic users , but also provide clear information to users outside the country;
- Adaptation of terms of financial accounts and report's terms to international terminology;

- Adaptation of related sides, information of segments, the financial instruments, financial reports and the consolidation of financial reports related to business associations to international standards.

In accordance with the applicable legal documents financial reporting consists of the following forms of the report.

Forms	***designations***	***Content***
Form 1	Balance sheet	Reflects company's the assets, liabilities and capital in the form of money at *the beginning* and *the end*
Form 2	Report on financial results	During the reporting period, the company's revenue, expenses and profit or loss are represented as the money.
Form number 4	Report on money stream	During the reporting period, status of finances and as a result of the movement of the company by operational, financial and investment activity are determined.
Form number 5	Report on private capital	Represents the position and movement of private capital of the company during the reporting period.
	Notes, calculations and explanations	Financial performance and financial condition of the company are explained in the financial review.

The balance sheet formed on the basis of the account balance remains at the end of each month on exact date. All synthetic accounts which are opened in main book are closed at the end of the month, that is, their debit and credit turnover sums are determined and remains of the balance are calculated at the end of the month.

In Uzbekistan a single form of the balance sheet introduced and approved. To complete asset-string parts the procedure is hold in accordance with the rules, account balance of the reporting period from the main book is added to the remaining sums together.

The essence of the balance of accounting issues includes the following:

1. Accounting balance is one of the components of the of the financial report, which occupies a central place in the report and the core document of the final table, and is strictly regulated.
2. Accounting balance is the model, which contains information about the financial condition of assets and liabilities on the display.
3. The accounting balance supplies with information of long-term assets, current assets, current liabilities and long term liabilities status information on a specific date.
4. The balance sheet is document which describes the equality as ***value of assets = liabilities + equity***.
5. Accounting balance is element of accounting method, which allows the information processing accounting procedure by using the assets of the company, its structure and resources of the organization, group accommodation.
6. Balance accounting information the primary source of information for financial analysis in order to assess the financial position of the company.
7. The balance is used to assess the liquidity of the company.

The form and structure of accounting balance are presented in Table 1 below.

Table 1: Samarkand Joint Venture 01.01.2010 Balance (abbreviated form)

(thousand sums)

Specification	**Line codes**	**At beginning of the reporting period**	**By the end of the reporting period**
1	2	3	4
Active			
I. Non-current assets			
Underlyings: (010-011)	012	1457675	3460451
Intangible assets: (020-021)	022	-	-
Long-term investments in total: (050 + 040 + 060 + 070 + 080)	030	5055	5078

installed equipment	090	1365770	-
capital investment	100	58837	
long-term debts	110	1272	1212
The delayed long-term expenses	120	-	-
A total of I- part (012 + 022 + 030 + 090 + 100 + 110 + 120)		**2945566**	**3523364**
II. current assets			
Product and material resources, in total (150 + 160 + 170 + 180)	140	716063	854510
Future expenses	190	-	-
delayed expanses	200	-	-
Debitors, in total (220 + 240 + 250 + 260 + 270 + 280 + 290 + 300 + 310)	210	47825	230222
The money, in total (330 + 340 + 350 + 360)	320	31879	7536
short-term investments	370	-	-
Other current assets	380	-	-
Section II, a total of (140 + 190 + 200 + 210 + 320 + 370 + 380)	390	**4852576**	**5261984**
The balance of assets in the total amount (130 + 390)	400	***7798142***	***8785348***
passive			
I.Sources of funds			
Authorized capital	410	2686051	3308892
additional capital	420	142129	153733
Reserve capital	430	-	-
Retained earnings (uncovered loss)	450	140439	175682
Total of Part I **(410 + 420 + 430 + 440 + 450 + 460 + 470)**	480	**2968619**	**3638307**

II. obligations			
Long-term liabilities (500 + 520 + 530 + 540 + 550 + 560 + 570 + 580 + 590)	490	3456374	4181111
Short-term liabilities (610 + 620 + 630 + 640 + 650 + 660 + 670 + 680 + 690 + 700 + 710 + 720 + 730 + 740 + 750 + 760)	600	1373149	965930
Unit II in total (490 + 600)	770	**4829523**	**5147041**
Balance sheet liabilities for a total amount (480 + 770)	780	***7798142***	***8785348***

The current balance has a number of features. *First of all, the* introduction *of* a unified methodology for financial reporting, which allows the country and supply management can achieve the same names. *Secondly,* the balance of the two parts (active and passive), a part of one of the two divisions, sections and groups are reflected in the balance of the substances can be found clearly. Accounting balance, which is based on a single rule, helps accounts to make the right approach methodically. What is the line, in which the rules on the balance sheet account balances are taken, clearly shows the procedure to store them. In addition, the shape of the balance will be collected, and which lines are recognized by the methods of the rows. *Thirdly,* the only form of the balance helps users comparing balance sheet items on the balance sheet of another company in the details of the same line as it is supplied by the structure. *Fourthly, the* balance covers data of the beginning of the period and the balance at the end of the reporting period. This financial analysis of changes in the state compared to the previous year. The process of analysing helps to make proposals and recommendations of opportunities and reserves and the development to improve the financial situation. *Fifth,* the balance of the account of current operations NAS number 1 "Accounting Policies and Financial Statements", which should be reflected in the balance sheet in accordance with the accounting covers all the information. Moreover, the information in standards provided with the wider format with each of its constituent elements. For example, commodity and material resources consists of 4 paragraphs, debitors 9, funds 4, the quantity of paragraphs of long-term liabilities are 7 and current liabilities constitutes of 16 paragraphs. This information is for enterprise users of assets, liabilities and equity, with the result that they create an opportunity to give more information. *Sixthly,* each account and accounting balance is encoded, which helps to make easy accounting information softwares.

At the same amount of balance sheet etc., objectivity and the importance of information for the benefit of all users, not just to provide the necessary information and to ensure that foreign founders understood the balance of international accounting standards in order to adapt to the demands of improvement in the following areas:

First, in the order which shown in the international accounting standards, the structure of information in the balance sheet should be reflected. The balance contains a lot of information, which makes it difficult to read and understand. The accounting balance is mainly aimed to external users. Thus, external users that are not only an economist or a financier, but also provided information should be understandable to customers too.

Second, the information, which is aimed to be placed in balance sheet, should be placed in accordance with the comfortality for financial analysis. When we are placing accounting paragraphs, we need to pay attention to their liquidity. Accounting for fixed assets to reflect the balance of long-term assets, if compliance with the procedures and shorten the duration of asset and liability items for the purpose of short-term liabilities procedures are considered. In this order a comparison of current assets to current liabilities is possible. This makes possible calculation of the liquidity balance for the information users. Today, the balance in accordance with international standards is necessary for the development of the new structure.

Thirdly, the paragraphs which are used to reflect company's assets, liabilities and equity, which are reflected in the balance sheet of the company, need to be recognized in the financial balance sheet and evaluated. Moreover, ways and methods of displaying in the balance sheet should be in accordance with international best practice and compliance with international standards. This process is to ensure the quality of financial information. Only if information is accepted and registered in accordance with the principles of international recognition while financial accounting and reporting, and reflected on the financial report on time, its cost, reliability and objectivity are recognized. Unqualitative information may lead the user to wrong decisions. Thus, the processing must be brought into line with international standards.

Fourth, the book notes the balance of which will be displayed on the procedure for displaying information and a description of their national standards need to be improved.

Fifth, the methodology of the establishment of the accounting and the methodology changes in the balance in the situations when companies unite, when consolidated report is created and creating accounting balance in conditions of inflation need to be improved.

Sixthly, the names of paragraphs of the balance sheet are to be adjusted in compliance with international standards of terminology.

The main purpose of ***financial report of the results*** (form number 2) is informing the users of the information, about revenues, expenses, gains and losses of sujects during the reporting period and helping them in understanding the various aspects of this activity. In the current form of reports are shown identical indexes of the last and the reporting years, which is an important source of information for the study of changes in trends.

As a basis for the report on the financial results serves all income and expenses, and the information of the opened books which are intended for profit accounting, order books, and main books (see Table 2)

Table 2 : **Report on financial results of Samarkand Co., Ltd. joint venture for 2010**

(Thousand sums)

Name of index	**code lines**	**During the same period last year**		**During** the **reporting period**	
		Income (profit)	**Expenses (Loss)**	**Income (profit)**	**Expenses (loss)**
1	2	3	4	5	6
Proceeds from sale of the products (goods and services)	010	523325	X	3249910	X
The value of sold products (goods and services)	020	X	421891	X	3056503
The gross margin (010-020) of sales products (goods and services)	030	101434		193407	
Total expenditure for the period (050 + 060 + 070 + 080),including:	040	X	112055	X	598498
Expenses of sales	050	X	4440	X	2635
administrative expenses	060	X	45799	X	213584
Other operating expenses	070	X	6181	X	358559

Expanses of the future, the tax base cost of the reporting period	080	X		X	
Other income by the main activity	090		X	181	X
Profit (loss) by main activity (090 + 030-040)	100		10621		404910
Income of financial activity- in total (120 + 130 + 140 + 150 + 160)	110	108670	X	972872	X
Dividend income	120		X		X
Interest income	130		X		X
Income from the long-term renting(financial leasing)	140		X		X
Income from exchange rate speculation	150		X		X
Income by other financial activity	160	108670	X	972812	X
Financial operating expenses, a total of (180 + 190 + 200 + 210)	170	X	30100	X	532621
Expenses in the form of interest	180	X	16613	X	218247
Expanses in the form of the long-	190	X		X	

term renting (financial leasing)					
Exchange losses	200	X	13487	X	314031
Other financial expenses	210	X		X	343
Profit (loss) by general economic activities (100 + 110-170)	220	67949		35341	
Extraordinary gains and losses	230				
Income (loss) before the payment of Income Taxes	240	67949		35341	
Income tax	250	X	privilege	X	privilege
Other taxes and fees	260	X	5436	X	2827
Net profit (loss) during the reporting period	270	62513		32514	

The current report on the financial results has a number of features. ***First of all,*** the report is, in accordance with "Contents of Expanses" regulation, based on the formation of financial results step-by-step. As a result, the provision of information convinces the users of enterprise's gross profit (sales performance) from the sales of products (goods and services), profit by the main activity (including expanses for the period after the results), profit by the economic activity (results after taking into account the results of financial - economic activities), income before payment of profit tax (taking into account sudden expanses and benefits), net profit for the period. This is in accordance with the requirements of international standards for the calculation of the indicators. ***Secondly,*** for the same period of last year as well as reporting period's income and expenses have separated columns. This means that income and expenditure, to write clearly separated from each other, as well as the results of the reporting period, which allows us to compare the position of the previous year. ***Thirdly,*** the report covers all requared information for reports on financial reports as shown in NAS № 1 "Accounting Policies and Financial Statements". ***Fourthly,*** each index of the report has a line code. Lines for the calculation of the indicators by subtracting or accumulate sums that line the waterfront. This report provides a methodological programm support.

In order to apply the structure of the income statement, the order of creation and application of it, it seems effective that the best international practices and international standards that are deemed necessary to improve coordination in the following areas:

Firstly, the way of calculation and content of incomes from sales of goods (services), and self-cost of goods (works and services) need to be harmonized with international standards.

Secondly, the method of identification, meaning the content of components of indexes and procces such as determination of figures contained in the report, including selling expenses, administrative expenses, other operating expenses, and expenses of the reporting period which will be taken out of the base and will be taxed in the future, are required to be adjusted to international best practices.

Thirdly, data recognition, identification, evaluation, accounting procedures and methods of the report and the methodology of their reflection in the report need to be improved. Since, only the information provided in accordance with international principles have objectivity, reliability and features of importance.

Based on the above mentioned ideas, the thoughts and comments about improvement of the balance sheet and reports on financial results will serve for their adjustment to International Financial Reporting Standards.

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NEW SCHOOL OF THOUGHTS IN MANAGEMENT EDUCATION

Dr. S. K. Govil[1]

ABSTRACT

Technology and growing entrepreneurship culture have been redefining management education and trying to match the global pace of development. Emerging fields like e-commerce, technology, healthcare management, retailing, corporate communication are increasingly becoming part of curriculum along with traditional disciplines like human resources, finance, insurance and administration. Globally stress is laid upon improving the content of management programme incorporating innovation and entrepreneurship. Indian problems are peculiar, we need to better the quality of education at primary and secondary level and rural areas should be equipped with better education. Quality faculty remains a key problems for B-schools .Industry needs to come forward to impart its knowledge and experience with management students.

Management institutes are responsible for turning around this potential talent into a proficient workforce. Management is at the core of every academic discipline , be it technology ,humanities, finance or medical education and skill development is an essential task ahead for B- Schools.

According to NAASCOM just 30% of technical and 10 to 15 % other graduates are employable .Therefore management institutes should develop technical, interpersonal, analytical and conceptual of the students in order to bridge the gap between what is expected by the industry and what is offered by the management Institute.

Management education worldwide has been witnessing a paradigm shift with the digital revolution permeating into every walk of life. Technology and growing entrepreneurship culture have been redefining management education over the last decade. According to academicians, a right management programme comprises a right business school, competent faculty, industry-academic interface, field work and better employment prospects.

Many reports about Indian management education make it clear that Indian B-Schools are standing at a crossroads of quality and quantity. Studies emphasise on the need for B-Schools to establish their credibility in churning out responsible products than mere degree holders.

Indian Management education is evolving, incorporating global trends, combining them with the needs of local industries. That is a reason as to why many management specialisations have emerged for the students proving them a plenty of options to choose from while choosing management as a career avenue.

Keeping itself abreast with the latest developments, management education in India is trying to match the global pace of development .With ambitious policies like Make in India, Digital India, and recently launched Start-Up India. The world is looking at this country as a

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potential talent pool. As the expectations from the industry have risen, experts feel that it is high time management education in India raised its bar to cater to global challenges .Emerging fields like e-commerce, technology, healthcare management, retailing, corporate communication are increasingly becoming part of curriculum along with traditional disciplines like human resources, finanace, insurance and administration.

Globally stress is laid upon improving the content of management programme incorporating innovation and entrepreneurship. The focus of MBA should be to produce entrepreneurs and leaders.

Education equips students with knowledge, skills and attitude. MBA Leads to a profession in commerce and business. Nevertheless, mobilisation of skilled manpower will always remain a difficult task as grooming the right talent for the right jobs at the right time will always remain a challenge .Indian problems are peculiar we need to better the quality of education at primary and secondary level. Rural areas should be equipped with better education.

Unemployment is a global problem not merely in India .Only particular industries employ MBA's. Indian leaders are displaying talent at global level but it is all IT related .Management schools can shape sound and well balanced managers provided they get support on the policy fronts. Quality faculty remains a key problems for B-schools .Industry needs to come forward to impart its knowledge and experience with management students. Education is about manifesting talent within .The definition of education is – What makes a person a mature and responsible individual is education .The whole purpose of academics is not parroting text books .It is about exploring the skills .India boasts a high number of youths and we are one of the most bankable options ,when it comes to talent. Education institutions have a crucial role to play in talent management. Indians have proved their talent globally at various plateforms. However management institutes are responsible for turning around this potential talent into a proficient workforce .Management is at the core of every academic discipline , be it technology ,humanities, finance or medical education .Skill development is an essential task ahead for B- Schools .

With a high population India has emerged as a brand. Indian B-Schools have an excellent opportunity to provide efficient managers with high intelligent quotient, emotional quotient, spiritual quotient and competition quotient. According to NAASCOM just 30% of technical and 10 to 15 % other graduates are employable .Therefore management institutes should develop technical, interpersonal, analytical and conceptual of the students in order to bridge the gap between what is expected by the industry and what is offered by the management Institute .

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GLOBALISATION IN INDIA AND IT'S PRESENT POSITION

Dr. Ramji Das Rathore[1]

Globalisation refers to a variety of events that are rapidly changing the world. The machine that powers globalisation, however, is the global economy. At the heart of the global economy are the twin policies of **privatisation** and **deregulation**, which national governments have adopted worldwide since the 1980's. Terms like *free market economy, level playing field, monetarism, market economy,* and *neo-liberalism* embrace processes such as privatisation and deregulation.

Privatisation is about putting governments out of business. The economic theory behind privatisation is that, *Business knows best*. In this age of globalisation, our governments cheerfully tell us that they are too incompetent to manage our economy, so as a service to the public they will instead let the free market run it. Then our governments sell off publicly owned businesses and assets, which usually end up controlled by multinationals and financed by public shareholders. Competition within the marketplace rather than government management, we are told, will allegedly produce lower prices and better services for consumers. This is called *a better standard of living*, which implies that the public are better off for having a privatised economy so they should be happy about it.

Deregulation takes several forms. Within a country, the lifting of trade restrictions and easing of government regulation in business is meant to allow business to run more efficiently. The best businesses will survive the competition to give consumers a better standard of living, that is, more material goods for lower prices.

Deregulation also applies to national currencies. Currency is no longer pegged at a certain value by government decree or gold reserves, but its value is *floated* in the global market place, where it will find its own natural level in the ocean of other global currencies.

WHAT IS GOOD ABOUT GLOBALISATION?

We have wide-screen TV's. We have cheap Chinese goods. The greatest benefit from globalisation is that it gives some countries a greater range of cheap overseas goods to buy.

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The cheaper prices are not a lasting result of globalisation though, but rather a reflection of the non-level playing field that currently exists within the global economy.

Government subsidies, import tariffs and lower paid workforces are what make the playing field of the global economy non-level. If the global economy ever reaches its proclaimed goal of a level playing field, then the cheap goods will become more expensive again. There would not be cheap labour or protective subsidies anymore. Cheap foreign goods are bait to encourage citizens to accept and assist the process of globalisation.

As wealthier nations buy those foreign goods they raise the wages of foreign workers and reduce the wages of workers in our own countries by ultimately putting them out of work. Prolonged high unemployment eventually leads to effective reduction in real wages. So in effect, cheaper goods, which are an evident benefit from globalisation, are precisely what globalisation is aiming to remove through its *level playing field* policy. Achieving a level playing field is a stated goal of the WTO.

WHAT IS BAD ABOUT GLOBALISATION?

The bad aspects of globalisation involve human wellbeing, the environment and economic realities.

Human Wellbeing and Quality of Life

Quality of life is at risk from globalization in a number of different areas.

THE END OF DEMOCRACY AND NATIONAL CONTROL

- While democratic-styled governments are being installed around the world in the name of freedom, the essential structure of democracy itself is being undermined by globalization.
- Many fundamental areas of society that were traditionally administered by democratically elected governments are now becoming administered by unelected and unapproachable multinational boards.
- Where governments were open to public scrutiny, corporations operate in secrecy within their boardrooms in faraway countries.
- Where governments could be voted out if society disapproved, corporations are not subject to elections.
- Where governments made decisions in the interest of the nation, corporations now make decisions in the interest of profits.

- Where governments were the highest authority in a land, now international laws overrule national laws that conflict with them. Even in matters like environmental care and public health, international law protects multinational profits over national wellbeing.

Economic Impact of globalization in India

- Multilateral agreements in trade, taking on such new agendas as environmental and social conditions.
- New multilateral agreements for services, Intellectual properties, communications, and more binding on national governments than any previous agreements.
- Market economic policies spreading around the world, with greater privatization and liberalization than in earlier decades.
- Growing global markets in services. People can now execute trade services globally from medical advice to software writing to data processing, that could never really be traded before.

Impact of globalization on business in India

- India has a consumer base of 1.14 billion people.
- India is the 3rd largest global telecom market. The mobile subscriber base has grown from 0.3 Million in 1996 to over 250 million currently.
- India is likely to add over 200 shopping malls by 2010 and 715 malls by 2015.
- India is the world's:
- 2nd largest two-wheeler market,
- 4th largest commercial vehicle market
- 11th largest passenger car market.
- Expected to be the 7th largest automobile market by 2016.

Technological & Cultural impact of globalization in India.

- Access to television grew from 20% of the urban population (1991) to 90% of the urban population (2009). Even in the rural areas satellite television has a grown up market.
- In the cities Internet facility is everywhere .Extension of internet facilities even to rural areas.

- Global food chain /restaurants has already found a huge market in the urban areas of India.
- Lavish Multiplex movie halls, big shopping malls and high rise residentials are seen in every cities.

India's problem with Globalization

- Some section of people in India, basically poor and very poor, tribal groups, they did not feel the heat of globalization at all. They remain poor & poorest as they were.
- Increased gap between rich and poor fuels potential terrorist reaction.
- Ethical responsibility of business has been diminished.
- Youth group of India leaving their studies very early and joining Call centres to earn easy money thereby losing their social life after getting habituated with monotonous work.
- High growth but problem of unemployment.
- Multi party rule, hence political ideology intervenes globalization (reservation, labor law reforms).
- Price hike of every daily usable commodities.

Conclusion

- Flowing with globalization, India is shining in nearly every perspects.
- India is getting a global recognition and slowly moving towards to become a major economic and political strength.
- Though the developement is progressing rapidly, still many basic problems like rural poverty, corruption and political instability remained unsolved.

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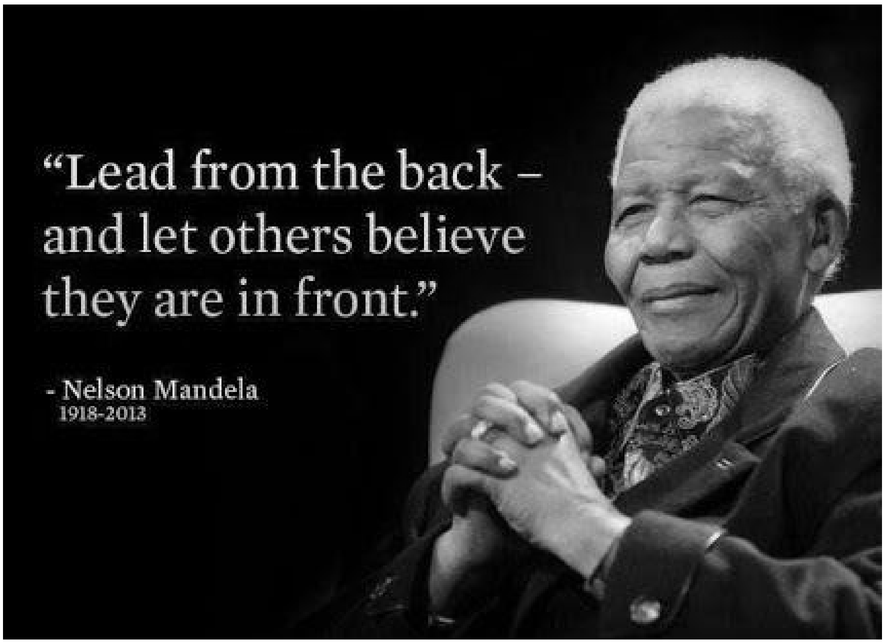

ISSUES IN CONTRACT FARMING IN AGRI-FOOD SUPPLY CHAIN IN INDIA: A LITERATURE REVIEW OF CERTAIN ASPECTS

Shivani Agarwal[1]

ABSTRACT

Agri-food supply chains in India have been undergoing rapid transformation with contract farming emerging as the most powerful tool by which the farmers are integrated into agricultural commodity chains. Contract farming allows the firm to have different levels of control over the production process without actually owning or operating the farms thus distributing the activities in the supply chain and the related risk between the firm and the farmer where farmers bear most of the production risks and the firm bears the processing and marketing risks. The major problem faced by the Indian farmers' is the difficulty in participating in the restructured agricultural commodity markets due to the weak backward and forward market linkages. They have poor access to quality inputs, latest farming techniques, updated market information, credit for better tools and inputs, extension services and lack of knowledge of profitable markets for their quality produce. Through contract farming such linkages are expected to be strengthened as it has the potential to increase the farmers' income by bringing in technology, efficiency and sustainability in the agricultural sector of our country. The main objective of this paper is to present an extensive literature review of papers collected over a period of 9 years (2007-2015) with the focus on identifying the issues faced by contract farmers in agri-food supply chains in India and suggesting measures to solve these issues.

Keywords: *farmers, contracts, contract farming, agri-food chain*

Introduction

Agricultural sector is the backbone of the Indian economy and has been undergoing a rapid transformation due to the fast changing life styles, increasing per capita income, migration of rural population to cities and increasing demand of the consumers for health, food safety, quality and certification mechanisms. The major problem faced by the Indian agricultural sector is the forward linkages are undergoing rapid expansion but the backward linkages are highly un-fragmented and unorganized. These weak firm-farm linkages need to be strengthened and contract farming has in recent years been prevalent as an effective market-oriented institution to facilitate linkages between the farmers, wholesalers, retailers, processors and other marketing intermediaries. There are various models of contract farming including institutions led by farmer cooperatives, those led by farmer groups, or private sector (retailers). Thus contract farming can help to increase the operating level of

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the farmers, increase their incomes, reduces the risk faced by the farmers, and provides them with various extension services to enable them to venture into more profitable, high value cash crops with ensured remunerative prices.

"Contract farming is defined as a form of vertical integration within agricultural commodity chains, such that the firm has greater control over the production process, as well as the quantity, quality, characteristics and the timing of what is produced"(Prowse ,2012). In contract farming some degree of assistance is provided to the farmers with the aim of increasing supply quality or quantity or reducing seasonality (Gotz et al., 2009). "Contracts are one of the various ways of coordinating economic activities between a farmer and a processing firm, thus enforcing a certain type of the supply chain management for the given commodity"(Hobbs, 1996). Farmer's decision to choose a contract depends on risk-bearing attitude and specific market failures faced by them. Contracts guarantee an outlet to the farmer thus mitigating the associated market risks (Arumugam et al., 2010).

The Mighell and Jones (1963) definition helps us to understand three types of agricultural contracts(Rehber,2007). The first type of contracts are the market-specification contracts, where a farmer is guaranteed a marketing outlet and time of sale, with a price structure provided if some quality is met. According to Minot (2007) market-specification contracts help in reducing the co-ordination costs, especially for perishable products and products with complex quality attributes like ripeness, freshness, taste, colour and with complete control of farmers over production. Here, the farmer retains the control over the production process and the market risk and price uncertainty is tackled by the firm(Hobbs,1996).

The second are resource-providing contracts, in which certain physical or technical inputs are provided by a firm to the farmers, and the produce is marketed through that same firm, thus reducing the farmers' cost of accessing and purchasing the inputs, and the firm is assured of quality of produce and repayment. Resource providing contracts are generally used for crops that require specific inputs or quality standards, and in cases when farmers struggle with imperfect input markets(Prowse, 2012).

The third type of contracts are production-management contracts, where under the technical supervision of the firm(supermarket) the farmer adopts specific growing practices depending upon the crop, input regimes and post-harvest management techniques (Arumugam, 2010).Thus the farmers enjoy a certain degree of control over the production process on the farm under the supervision of the contracting firm. The selection of any of these contracts varies depending on the type of commodity being produced, characteristics of the agents which affect the growth, and the market conditions for the given period of time (Hill et al., 1982;Key et al.,1999).

Contract farming thus helps the firm to participate and have different levels of control over the production process without actually owning or operating the farms thus distributing the activities in the supply chain and the related risk between the firm and the farmers where farmers bear most of the production risks and the firm bears the processing and marketing risks. Contract farming not only protects the farmers against down-side risks but also protects the retailers/buyers/wholesalers against the upper-side risks (Wang et al.,2011). These contracts enable the small-scale farmers to have access to inputs, agricultural technology and markets to produce according to the distributor (supermarkets) requirements (Loconto et al., 2012). We can summarize the reasons why farmers should opt for contract farming as follows-

1. Contract farming helps in reducing marketing risks and costs, farmers income is secured and also have access to the market with improved quality of the produce and with less wastage as buyers normally purchase all their produce (Arumugam et al.,2010).
2. With contract farming farmers can easily access marketing information, have access to appropriate technology for improving cultivation practices.
3. Contract farming helps farmers to make efficient use of the resources they own, make use of the technology to improve the farming techniques and also helps in skill development of the farmers (Arumugam et al., 2010).
4. Contract farming helps farmers to get access to loans or credit to finance farm inputs, have access to reliable and continuous supply of inputs at minimum prices by the buyer (Arumugam et al., 2010).
5. Contract farming helps farmers to apply better and improved methods of using chemicals and fertilizers, have access to new markets and also reducing the losses incurred by the farmers (Arumugam et al., 2010).

Contract Farming in India

Contract farming has its deep roots in India and started in the Bengal region during the East India company rule. ITC started contract farming in Andhra Pradesh for growing Virginia tobacco, in Rajasthan for cultivating tomatoes and potatoes, then the emergence of seed companies and the green revolution and finally contract farming with PepsiCo in Punjab for tomato farming can be considered as some of the developments of contract farming in India (Chakrabarti, 2015). With the Green Revolution, the Central Government started the largest Contract Farming model and provided subsidized fertilizers, quality seeds, training, and provided assured acceptance of the produce by State agencies with minimum price.

The Model Agricultural Produce Marketing (Regulation) Act by Central Government in 2003 aimed at the implementation of the marketing reforms with the provisions for registration of contract farming sponsors and recording of the contract farming agreements with the Agricultural Produce Marketing Committee (APMC) or a prescribed authority under the Act. The Act also includes the protection of title or rights of the farmers over the land under such contractual agreements, dispute settlement mechanisms and a model draft agreement suggesting various terms and conditions. For further supporting the states, the Ministry of Agriculture has listed Model APMC rules for adoption. Hence several state governments are now providing a legal framework for contract farming (Chakrabarti, 2015).

A Brief Review of Literature

The objective of this paper is to present a brief literature review with the focus on identifying the issues in contract farming in agri-food supply chains in India and recommending measures to solve these issues. This study is basically exploratory in nature and for the purpose of the literature review, research papers were collected for a period of 9 years (2007-2015) and papers dealing with contract farming in India were considered. Citations of papers related to the factors motivating farmers participation in contract farming in Indian context were referred to find more relevant papers addressing contract farming issues. Thus a cross referencing approach was adopted to find other relevant papers. This section reviews the literature on issues faced by the small holders and farmers in contract farming in agri-food supply chain in India.

Kumar (2007) studied contract farming from the perspectives of both the small farmers and large farmers and measured the level of resource provision by contract farming (in Punjab) with focus on its role in increasing productivity and growth of agriculture in Punjab. Data collection was done using Stratified Random Sampling method using surveys, interviews and informal discussions. The findings suggested that companies preferred large farmers over small farmers due the problems faced with the small farmers. Direct contract farmers showed higher productivity than indirect contract farmers and non-contract farmers. The companies under direct contracts operated more efficiently and provided access to scientific knowledge of farming and training to farmers, and on the other hand the farmers who contracted with companies operating through Punjab Agro Food grains Corporation (PAFC) were not provided satisfactory extension services and their produce was also not completely accepted by these companies.

Gulati et al.(2008) analyzed the role of contract farming in strengthening the market linkages of the small holders with emerging markets by providing assistance in farm production and marketing their produce through case studies. The author suggested a holistic view of agriculture as a complete agri-food supply chain consisting of production, logistics, distribution and warehousing, processing and retailing. Thus contract farming could be considered as an institutional arrangement which could strengthen the retailer-farmer relationships by backward linkages and could provide farmers with fair prices and access to information, inputs, farming technology, markets, credits etc. and could mitigate risks.

Kumar et al.(2008) studied how contract farming effected income and employment generation in both the contract and the non-contract farms, constraints and future prospect of contract farming. For the purpose of this study primary data was collected by personal interview using the method of pre-tested questionnaire from Tumkur district in Karnataka, and a three stage sampling technique was employed. Simple statistical tools were used for analyzing the income and employment of farmers. The researcher identified the various constraints faced by the contract farmers such as long payment delays, lack of credit facilities to the farmers, lower price for the produce, delays in procurement of inputs, lack of government control, lack of required logistics and distribution facilities. There were some constraints which were faced by both contract and non-contract farms. The findings suggested that the total income of contract farmers was more and almost double than the non-contract farmers and also the employment generation was almost double on contract farms with the dominance of female workers over male workers.

Sharma (2008) identified the role of corporate-led contract farming in addressing problems related to agriculture in India and also determined the factors that motivated farmers to adopt contract farming and its impact on crop productivity and farmers income. For the purpose of this research primary data was collected using stratified samplin and semi-structured interviews were conducted in three districts of Punjab. For identifying the determinants of farmers' participation in contract farming and it effects on farm income, a two-stage Heckman model was used. The results indicated that educated producers had a positive impact on farm income and that traditional channels were strict about quality issues as compared to contract farming firms. The findings also suggested that an access to institutional credit and extension services increased farmers' income. The researcher identified the need to promote farmers' organizations to reduce the transaction costs by improving the bargaining power of the small holders, increased participation of government agencies in enforcing regulatory frameworks for contract farming for promoting the participation of both the farmer and the retailer.

Arumugam et al.(2010) studied the factors that motivated farmers to participate in contract farming of fresh fruits and vegetables in Peninsular Malaysia. For the purpose of this paper primary data was collected through survey using semi-structured questionnaire using stratified sampling technique. Factor analysis and Descriptive analysis were used for determining the factors. The findings suggested that contract farming helped the farmers to have access to latest technology for farming, access to market information and inputs with effective utilization of the farm resources. The knowledge gained through contract farming also helped the farmers to increase the productivity of the farm using latest farming practices.

Shukla et al. (2011) examined the attitude of banana contract farmers towards contract farming and analyzed the relationship between the banana contract farmers' attitude towards contract farming and their demographic characteristics. For the purpose of this study primary data was collected by personal interview using the method of structured questionnaire from Narmada and Bharuch districts in South Gujarat, and a random sampling technique was employed. Simple statistical tools were used for analysis and a 5 point Likert scale was prepared for measuring the attitude of contract farmers. The findings suggested that majority of the farmers showed a positive attitude towards contract farming due to the assured market access and higher returns in contract farming. Thus the study emphasized the need for establishing a farmer association or cooperative with the objective of increasing the small holders participation, increasing the bargaining power of the farmers, encouraging long-term productivity of the farm which could not promote contract farming but also could utilize its true potential with assured economic returns in agricultural sector in India.

Narayanan (2012) presented the view that in Indian agri-food supply chains both farmers and the retail chains showed reluctance towards developing formal contracts with enforcement of legislative mechanisms and rather preferred to continue transactions outside the prescribed legal framework. They viewed contract farming more as relationship and less as contracts. The Government of India proposed a Model Act (The State Agricultural Produce Marketing Development and Regulation Act) in 2003 which enumerated the various guidelines for contract farming operations safeguarding the interests of both the farmers and the retailers. Contracts in India were governed by this Model Contract Farming Law, but contracts were not being signed under this Act rather participation of retailers in contract farming had been low within this legal framework. Data collection had been done using field surveys. The findings suggested that the development of contract farming as personal relationships in Indian context was important rather than viewing them just as a legal institutional framework viewed by both the farmers and the retailers as detrimental to their relationship. Hence by providing a legal institutional framework alone would not increase the incentives and participation of both farmers and the retailers in contract farming but there was also a need for notional contracts with a view to strengthen the personal relationships between farmers and retailers.

Kaur (2014) studied the behaviour of the processing firms and the contract farmers towards contract farming and its adoption based on the size of the holdings. For the purpose of this study primary data was collected through random sampling technique and interview method was employed. A case study of PEPSICO plant, village Channo, district Sangrur, Punjab was conducted. The findings suggested that majority of the farmers with large size of holdings were involved in contract farming as compared to small holding farmers as it provides more reliable, regular and higher income to farmers and for proper implementation of contractual agreements coordination between both the farmers and the processing firm was required.

Wang et al.(2014) presented a review of literature on contract farming adopted in both developed and developing countries with the focus on the factors motivating farmers participation in contract farming and the effect of contract farming on the welfare of the farmers, farm productivity and agri-food supply chain efficiency. For the purpose of the research a meta-analysis was conducted on the existing empirical literature to identify the reasons why the existing literature was unable to show significant effects of several variables on decision to go for contract farming. The findings suggested that factors motivating farmers' participation in contract farming were not significantly different in developed or developing countries. Various government policies encouraging contract farming played a major role in motivating farmers towards contract farming. The findings also suggested that contract farming improved the farmer welfare, farm efficiency and productivity as it provided access to larger farm equipments, new technology, inputs and information and also improved the food traceability and reduced transaction cost across the agri-food supply chain. The study could help the policy makers to invest in the development of contract farming as it could prove to be a fruitful policy for the future both in developed and developing countries.

Chakrabarti et al.(2015) empirically studied the development, advantages, issues and future scope of contract farming in India. This exploratory study used secondary data from various reports published on contract farming. The researcher highlighted the role of the Indian government in enforcing the provisions for the institutional arrangements for recording the contractual agreements between the farmers and the retailers for its effective implementation. Establishing Contract farmer associations at plant level to reduce the role of middlemen, selection of appropriate plant genotype, strengthening of backward and forward linkages for better participation of contract farmers, maintaining updated databases of contract farmers for better information exchange, development of commercially acceptable quality standards for various commodities for ensuring quality over a period of time were some of the other recommendations suggested by the researcher for the development of an appropriate contract farming model to ensure latest technology, efficiency and sustainability of farming sector in Indian context.

Findings

Indian agriculture is dominated by small holders and for participation of these farmers with inclusive growth requires successfully linking the farmers with the markets and becoming a part of agri-food supply chain where a major role is played by contract farming and farmer cooperatives (Gulati et al., 2008).There is a scarcity of organized food retailing for fresh fruits and vegetables when compared to food grains. Contract farming helps the farmers to move from traditional crops to high value commodities. Theoretically, the farmers benefit from contract farming but there are some practical issues faced by the farmers in agricultural contracting in India.

1. Lack of risk-mitigating measures such as crop-insurance for variable demand horticultural commodities prone to both production and price risks
2. Lack of information on price of produce and lack of latest technology farming practices
3. Highly perishable nature of the fresh produce esp. fruits and vegetables leading to the higher losses in absence of knowledge of efficient post-harvest practices
4. Difficulty in marketing their produce due to far away location from the wholesale markets (mandis)
5. Lack in the enforcement of contractual agreement under the Act provided by the Central Government which provides legal protection to farmers against verbal or written contracts due to breach of contract by either the farmer or the retailer.
6. Issues are faced by farmers refusing to sell the produce when the market price exceeds the contract price and by retail chains refusing to purchase the produce or pay agreed contracted price due to adverse market conditions.
7. Long-term contractual relationships depend on trust and commitment
8. Contractual agreements often favour farmers with large holdings and hence the small holder farmers are exploited
9. Lack of coordination mechanisms for strengthening forward and backward linkages for better participation of farmers

Suggestions

The researcher suggests the following recommendations to deal with the issues faced by the contract farmers in agri-food supply chain in India

1. In order to encourage the participation of small farmers in contract farming, an approach of forming clusters or groups or associations of farmers with small land holdings could help in creating a considerable scale effect and in strengthening the bargaining power of the small farmers
2. The enforcement mechanisms under APMC and its provisions should be made effective by encouraging the participation of both the farmers and the firms
3. A contract farmer association or farmer cooperative at the plant level will help in minimizing the role of middlemen and their commission and also help in increasing the farmer's income
4. Measures must be taken to strengthen the forward and backward linkages as a part of contractual agreement by ensuring the regular supply of inputs and access to market for the farmers produce
5. For the successful implementation of the contractual agreements adequate infrastructure facilities e.g. roads, distribution centers, stable water and power supply, cold storage facilities etc must be provided by the government as a necessary infrastructure to support contract farmers
6. Contractual agreements should be written in vernacular language for better understanding of the farmers
7. Maintenance of updated databases of contract farmers for better information exchange
8. Development of commercially acceptable quality standards for various commodities for ensuring quality over a period of time
9. Development of appropriate contract farming models for agri-food supply chains in India with the focus on encouraging small holders participation would prove an effective way in improving the performance of farming sector and increasing the sustainability in the agricultural sector in India

Conclusion

Contract farming can be regarded as a means of reducing the transaction cost by linking the farmers to the market, where the contracting firm provides them with the benefits of different extension services and is committed to buy their produce under certain stipulated conditions. Contract farming helps the firm to participate and have different levels of control over the production process without actually owning or operating the farms thus distributing the related risk between the firm and the farmer. The researcher has identified the various issues faced by the farmers in contract farming in agri-food supply chain in India and has also recommended measures to resolve these issues. Hence this study will help the policy makers in designing policies with the objective to promote farmers participation in contract farming and will help to understand the current status of the existing contract farming models in India and the need and importance of developing efficient contract farming models for sustainable farming practices. This study will also help in creation of an enabling environment which would encourage participation by private sector in contract farming in India for greater investments and will provide significant benefits to both the farmers and the consumers.

Future Research Directions

In the given literature review the researcher has only considered the farmer side considerations of contract farming in agri-food supply chain in India with little attention on the considerations of the retailers/ contracting firms. A possible extension of this research work could be to explore the contracting firms perspectives on contract farming and the factors motivating the contracting firms in selecting the optimum suppliers. A research gap is identified in this study which is a lack of empirical research on the factors motivating farmers to participate in contract farming in India which would help in understanding the problems faced by most farmers in contract farming.

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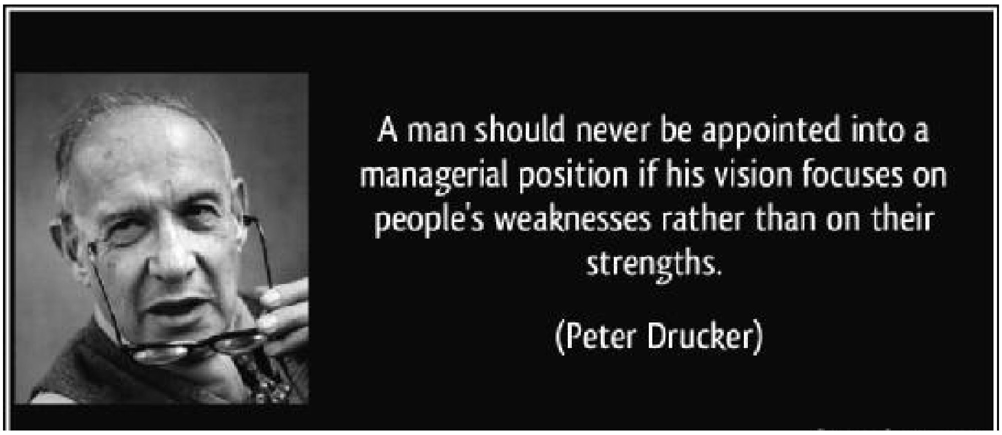

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