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A Critique of Indian Public Finances

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Abstract

Public finances in India are at a turning point. Analysis of the past data, however, shows no improvement in any of the major fiscal indicators. Restructure of debt, reforms in power sector and implementation of other issues under MTFRP, GST hold promise for future. The main objective of this paper is to suggest restructuring of public finances of the Centre and state governments to provide macroeconomic stability, equitable growth in the country and improve efficiency of resources. The paper also suggests ways to augment revenue resources and contraction in expenditure. On the contrary, other fiscal indicators have shown significant deterioration. Thus the claims about fiscal adjustment are illusory. Fiscal consolidation in India perhaps needs more attention and commitment. The objective of the present study is to examine the background and to identify the major problem areas at state and central level. The another objective of the paper is to study the deficits of the government of India whether fiscal reforms taken by the government of India for resources mobilization led to reduction in deficits.

Keywords: Fiscal Crisis, Fiscal Deficit, Public finance, Fiscal Reforms, India

Introduction

Public finances in India are at a turning point. Analysis of the past data, however, shows no improvement in any of the major fiscal indicators. Restructure of debt, reforms in power sector and implementation of other issues under MTFRP hold promise for future. While the deterioration in fiscal turning points in the last decade can be related to some proximate causes like pay revision of employees or sluggish revenue growth because of a slowdown in the economy, the imbalances in the state budgets have their origin in factors that are structural in character [Anand, Bagchi and Sen 2001]. Like in most other reform areas, the story of fiscal correction in India has been that of a symbolic exercise. The attempt has been to take the course of least resistance in implementing reforms. The way the government has chosen the fiscal indicators as targets for correction and its various attempts at camouflaging and window-dressing the numbers on various fiscal indicators adequately demonstrates this proposition (M Govinda Rao, EPW, 2000).

Review of Literature

There are many studies on State level fiscal reforms in India and related topics. This section deals with the review if such studies. Rao, M. Govinda (1981) makes a modest attempt to study

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and to identify the determinant of tax revenue and non-plan revenue expenditure of the states towards making their medium term projections. The researcher has chosen the states of Karnataka, Kerela, Orissa and West-Bengal for the purpose in studying the time series determinant. In this study, both the political and economics determinants have been considered. The effects of various economic and political factors on the fiscal decisions of the four states are also quantified. While discussing the determinants of non-plan revenue expenditure the study summaries that in all the four states except Orissa, the growth expenditure on various services is of providing them. Only in Orissa the growth in non-plan revenue expenditure is due to increased quantity of public services. The results of the study confirm 'Down's Hypothesis' that fiscal decisions are essentially guided by the desire to maximize the length of their tenure by the parties in power and are not influenced by their ideological doctrines.

Howes, Stephen, Ashok, K. Lahiri and Nicholas (2000) in their article discusses about the states level reforms in India. They also enumerate the causes that lead to the spread of state level reforms in India. According to them India cannot succeed with reformed and revived state governments. Kurian, N.J. (1999) in his paper attempts to bring out the deteriorating trend in state finances in recent years. "Failure to contain wasteful expenditure and reluctance to raise additional resources" on the part of the states are the main problems afflicting most of the state finances. Tax wars among the states government to attract private investment in the wake of economic reforms as well as competitive populism and the pay revision of employees led to starvation of funds of states. Unless drastic measures are resorted to without delay finances of states will collapse. Chelliah, J. Raja, Rao, Kavita R. (2002) in their paper discusses about the rational ways of increasing the tax revenue of Central and state governments in India. According to them no serious effort has been made to modernize tax administration. The administration of all the states is manual based. A reform and modernization of the administration of the major taxes through computerization and strong deterrent action against tax evaders and corrupt taxmen are two important steps to be taken to increase revenues. Kurian, N.J. (2003) in his work pointed to some expend success has been achieved at the Centre but there has been steep deterioration in the finances of the states. Any decline in the Union government and the associated fall in devolution to the states will have further deletions effect on regional imbalances of the country.

Anand, Mukesh, Bagchi. Amaresh, Sen, K. Tapas (2002) in their article has discussed about the causes of fiscal indiscipline at the state level. Weaknesses of the system of inter-governmental fiscal relations have been cited as prime caused leading to fiscal indiscipline among states, which call for corrective measures. In a similar line Bagchi, Amaresh (2002) have observed even after a decade of correction the consolidated fiscal deficit (FD) of the government (Centre plus states) stood at about the same level at the close of decade as it is in the beginning10% of GDP. The crises in state finances have their origin in some deep-seated weakness of the fiscal system that call for structural reform. The weakness is in revenue system, budgeting system and system of inter government financial relations. If fiscal deficit is to bring down the weakness of the fiscal system noted above need to address frontally. The study conducted by Bhargava, P.K. (2002) discussed about the state level fiscal reforms. The state should play complementary and supplementary role and performance to the efforts of the Centre to play and improve the fiscal situation. It is high time that agriculture income tax should be included in the constitution to raise the revenue of the states. Chelliah, J. Raja, Rao, Kavita R. (2002) in their paper discusses about the rational ways of increasing the tax revenue of Central and state governments in India. According to them no serious effort has been made to modernize tax administration.

The administration of all the states is manual based. A reform and modernization of the administration of the major taxes through computerization and strong deterrent action against tax evaders and corrupt taxmen are two important steps to be taken to increase revenues Analysis shows that on a comparable basis fiscal deficit reduction has been marginal. On the contrary, other fiscal indicators have shown significant deterioration. Thus the claims about fiscal adjustment are illusory. Fiscal consolidation in India perhaps requires another crisis. (M Govinda Rao,2000). The Thirteenth Finance Commission has been constituted against the backdrop of strong fiscal correction and consolidation by most of the state governments. The vertical and horizontal imbalance among the different sub national governments may lead to uneven development of the economy, unless corrected by an efficient system of inter-governmental transfers. in the process of fiscal transfers, the Thirteenth FC may opt to include the efforts to increase non-tax revenue as a criterion for horizontal devolution and may consider giving due weight to the need to enhance social sector expenditure as a criterion for horizontal sharing. (Kumudini S Hajra, Rakhe P B, Dhirendra Gajbhiye, 2008)

Emergence of Fiscal Crisis in India

Over the years, the Centre has seen a burgeoning of non-plan expenditure in the face of inadequate buoyancy of revenues. They have responded by resorting to larger and larger volumes of borrowing to finance plan expenditure, which is shrinking as a percentage of GDP. This process has led to steady build-up of debt, which in turn has generated a rising interest burden. One of the crises that India faced in 1990-91 was the unsustainable imbalance between government revenues and expenditure. Revenue deficit have been financed by running up surpluses on the capital account of the budget. Such surpluses on capital account of the budget will prove harmful for the long run growth prospects of the economy. The steady deterioration in the revenue account caused enlargement of gross fiscal deficit.

Prior to 1991, budget deficits generally meant revenue deficits and the overall deficits. The term “Fiscal Deficit” entered the terminology of fiscal management of the country as a prominent line since 1991-92 budgets. The fiscal reform process in India initiated since 1991 has a strong under pinning in the goals of macroeconomic stabilization and growth. The attempt to regain control on macro-economic situation through fiscal adjustment has been a global phenomenon since the beginning of 1980’s as this period unfolded for many developing countries the events of internal and external debt, high rate of inflation and major declaration in growth performance. The global context in which India was placed and the expediency of the situation in 1991 was the two most immediate factors, which led to the introduction of comprehensive set of reform measures in the Indian economy. The process of fiscal adjustment launched in 1991 as part of structural adjustment programme placed strong emphasis on reducing fiscal deficit of the Centre. Budget deficit of the Central government became a matter of serious concern for Indian policy makers.

The precarious fiscal position of the Centre called for bold and decisive policy measures to reduce fiscal deficit of the Centre. Since 1991, Centre has carried out number of measures of tax reforms as part of the ongoing economic reforms. The overall impact of these reforms on the Central government finances has not been quite encouraging. The tax GDP ratio of the Centre, which reached a level of higher than 11percent in the late eighties, has come down below 10 percent in the recent years. But the Center’s effort to contain its deficit led to fiscal deficit to remain below 6 percent. Subsidies have been cut and monetized deficit has been virtually declined. With the deterioration of state finances, Centre became concerned over states and leads a helping hand to states in overcoming their fiscal deficit. In the recent years, the deterioration in state finances has become a problem of great concern as it has caused severe erosion in the budget support for development and led to large borrowings even to meet current expenditure, mainly salaries to employees and interest payments. The scenario is not indeed bleak for the reform agenda at the state level without which the state finances could not improve nor would state governments be able to deliver basic services to the people. States are not even able to maintain existing public assets, yet alone creating new facilities and expanding infrastructure on the required scale.

The undesirable fiscal situation has continued to persist even after 10 years of fiscal adjustment despite attempts by the central government to reduce the substantial burden of fiscal adjustment on the states. The Centre is simply not in a position to bail out any state for it is borrowing heavily to meet the massive gaps in revenue expenditures which have resulted in reduced levels of capital standing. Like the Centre, the states borrow from the market as agreed beforehand with the Reserve Bank of India and with increasing borrowing and larger interest payments out go the fiscal position of the states can hardly improve without bold and drastic measures such as levy of user charges for all services like power, irrigation, transport water etc., widening of tax base, closing of all loss making enterprises, cut in non-merit subsidies, privatization of basic and infrastructure services, strong focus on human capital and downsizing of the administration. The consequent build-up of public debt and the interest burden of the debt, which is now the largest and fastest growing item of expenditure, further, fuelled the growth of revenue expenditure. These have led to a vicious spiral of growing deficits, rising debt, rising interest costs and further expansion of the deficit which some analysts have described as a debt trap.

Central Government Finances

The fiscal deficit and especially the revenue deficit of the centre continue to be a matter of serious concern. The fiscal situation has deteriorated especially since 1997-98. (This is primarily attributable to a decline in tax: GDP ratio and a further increase in non-interest revenue expenditure. The latter, coupled with the continuing rise in interest payments, has led to a significant decline in the capital expenditure to GDP ratio. This reduction in capital expenditure has occurred across the board including the social sectors as well as infrastructure. Decline in the tax to GDP ratio is also attributable to changes in the sectoral composition of the economy. The industrial sector remained relatively stagnant during the nineties, while agriculture remains largely untaxed, and its share in GDP has been shrinking. In contrast, the service sector has expanded rapidly, but taxes on services account for only a small fraction of revenue.

On the expenditure side, the sharp growth in current expenditure mostly consists of expenditure on committed interest payments, driven by the rapid growth in public debt, and substantial increases in the wage bill following implementation of the recommendations of the Sixth Pay Commission. Downward rigidities in defence expenditure and subsidies because of security concerns and political economic constraints have further aggravated the problem. The gross fiscal deficit of Central government was Rs 36325 crores (5.5% of GDP) in 1991-92 which increased to Rs 360243 in 1995-96 and then to Rs 118816 crores in 2000-01.It further increased to Rs 400996 crores in 2009-10.It further increased to 5339.04 in 2016-17. As far as revenue deficit is concerned it was Rs 16261 in 1991-92 which further increased to Rs 107879 in 2002-03 and then to Rs 282735 crores in 2009-10 which further increased to Rs3540.15 crores in 2016-17.Primary deficit also showed an increasing trend over the period (see Table 1).

Deficits are a comprehensive indicator of fiscal health of the government. Fiscal deficits (total receipts (except borrowings minus total expenditure expressed as proportion of GDP) for the state governments to indicate the stability in the finances of State GDP. It is the crucial factor computed which has been an increasing trend in the in the fiscal deficit. It is useful to begin recounting the crisis of centre finances by examining the trends in deficits of Central government during the period 1990-91-2016-17. in Table 1 . Regarding the position of fiscal deficit of centre as percentage of GDP is concerned it was 5.5percent in 1991-92, which further went up to 6.47 % of GDP in 1999-99. After that due to certain fiscal measures taken by the government, it showed a declining trend and it declined to 3.99 percent in 2004-05 and then starting increasing 6.85 percent of GDP in 2009-10(B.E) (see Table 2).

The revenue deficit was 2.48 percent of GDP in 1991-92 which increased to 3.82 percent in 1998-99 and then further increased to 4.40 percent of GDP in 2002-03 and still in 2009-10 it is 4.83 % of GDP. Primary deficit was 1.49 percent of GDP in 1991-92, decreased further to -0.03 percent of GDP in 2003-04 but further increased to 2.5 percent of GDP in 2008-09 and then to 3 percent in 2009-10 (B.E). To sum up, it may be mentioned that the Central Government have witnessed visible reduction in the deficits indicators in coming years due to strict measures taken by government but now due relax attitude and financial crisis it started increasing.

As the year 2008-09 progressed, the Indian economy was seriously impacted by the twin global shocks – unprecedented increase in the global commodity prices in the first half of the year and the ripple effects of the deepening of the global financial crisis in the second half. This led to conscious fiscal expansion, composed of both tax cuts and expenditure hikes. The slippage in the terminal year fiscal targets has also been accentuated by the Supplementary Demands for Grants on account of the farm loan waiver, implementation of the Sixth Pay Commission award and funding on the projects prioritized in the Eleventh Five Year Plan. There was a marked rise in liabilities also on account of issue of oil, fertilizer and food bonds even after greater accommodation of fertilizer subsidies as above the line expenditure in 2008-09.

From Table-1, we see that deficits are still there and improvement in fiscal balance in the recent years should be undertaken rapidly. The trend in major deficit indicators as set out in table 2 reveals significant improvement witnessed in recent years after recording progressive deterioration from the second half of the 1990s.As the impact of the crisis continued through 2009-10, the expansionary fiscal stance was continued in the Budget for 2009-10. Given the relative levels of shares of private final consumption expenditure and government consumption expenditure, such expansion could only be a short term measure and the Medium Term Fiscal Policy Statement presented along with the Budget for 2009- 10.The fiscal deficit target for 2018-19 at 3.3% of the gross domestic product (GDP) to accommodate higher demand for expenditure against the earlier target of 3%. However, the more worrying aspect is that the government's revenue deficit shot up to 2.6% of GDP in 2017-18 from the budget estimate of 1.9% of GDP, showing signs of the deteriorating quality of fiscal consolidation. This is also due to Rs1.1 trillion increase in revenue expenditure during the year.

Finances of the States

The state governments collectively account for about half of the aggregate fiscal deficit in India. Table 3 and 4 shows the deficit of State Governments of India during the period 1990-1991 to 20016-17. Table 3 shows the deficits of states in Rs crore and Table 4 shows the deficits as percentage of GDP. The key indicators of deficits of state governments are gross fiscal deficit, primary deficit and revenue deficits. The gross fiscal deficit of state government was Rs 18900 crores (3.3% of GDP) in 1991-92 which increased to Rs 30,870 in 1995-96 and then to Rs 87,922 crores in 2000-01. It further increased to Rs 10,7774 crores in 2004-05 and then to Rs 199,510 in 2009-10. It further accelerated to Rs4495.2 crores in 2016-17.

When we see GFD as percentage of GDP it was 3.3% in 1991-92 which increased to high level of 4.7% in 1999-00 and then declined to 1.8% in 20006-07 but then further increased to 2.9% in 2009-10 and still is 3percent in 2016-17. The states' fiscal deficit has risen from 3.2% of GDP to

4.7% between 1990-91 and 1999-2000. This increase in the fiscal deficit consists of a rise in revenue deficit of 2.8% in 1999-2000. Thus the tight resource position and crowding out of capital expenditure by increasing pressure of interest payments and salaries on the revenue account is transparent. The sharp rise in expenditure on social services in FY 1998 and 1999 is entirely due to a rise in the wage bill because of salary revisions and does not reflect any real increase in the provision of social services. The Gross Fiscal Deficit (GFD) of the States is primarily an outcome of bilateral negotiations between the States and the Centre on permissible net borrowing, i.e., the GFD is an exogenously determined instrument variable.

Total expenditure, and especially capital expenditure, are the variables which adjust to accommodate limits set by committed revenue expenditures, revenues, and the negotiated ceiling on the GFD. The finances of State Governments traditionally follow a pattern similar to that of the Centre, with a lag .As a proportion of GDP, revenue deficit of the States shot up from Rs 5651 crores in in 1991-92 to Rs 55316 crores in 2000-01 . The proportion declined to 2.2 per cent in each of the two years 2002-03 and of GDP in 2005-06. As a proportion of GDP, revenue deficit which was 0.9% of GDP in 1991-92 then increased to 2.5 per cent in1998-99 to 2.7 per cent in 2000-01, declined to 0.5 per cent in 2009-10 and currently to 0.1 percent in 2016-17. It may be noted that Primary Deficit of states was Rs 7956 crores in 1991-92 which increased to RS 13,675 crores in 1997-98 and then soared up to RS45,458 crores in 1999-00 and then declined to Rs 24376 crores in 2007-08. After 2008-09 it again started increasing. As percentage of GDP the primary deficit was 1.8% in 1991-92 which increased to 2.4% in 1999-00 and then declined to -0.5% percent in 2007-08. The recent estimate of primary deficit was 1.3% in 2016-17 (see Table 4).

The combined finances of the states, which had exhibited a somewhat intractable negative trait earlier, showed a dramatic turnaround in 2005-06 with the level of fiscal deficit ruling well below the target of 3.0 per cent of GDP mandated to be achieved three years later. Three important factors attributable to this included the award of the Twelfth Finance Commission in terms of grants and the incentive scheme of debt consolidation and waiver linked to fiscal consolidation under fiscal rules, revenue buoyancy of the Centre and the introduction of state-level VAT, which proved to be a very buoyant source for states.

Consolidated General Government

The full picture of public finances and their impact on the macro economy is best analysed through the levels of deficits in the consolidated General Government. From Table 5 we can see that the combined fiscal deficits of Central and state governments was 7 % of GDP in 1990-91 which increased to 10% of GDP in 2000-01.With reform measures and expenditure management it went down to 5.57% in 2008-9. The revenue deficit was 3.3% in 1991-92 which increased to 6.9 % in 2001-02. Reflecting the overall expansion to stimulate demand, fiscal and revenue deficit for 2009-10 (BE) is placed at 9.7 and 5.2 per cent of the GDP.

In the mid-2000s, when the Indian economy was growing at a rapid clip of 8 per cent , State government finances were well ahead of the Centre in terms of fiscal management. Many States even reported a revenue surplus. The combined fiscal deficit of the Centre as well as State governments was at 6 per cent. In 2008-09 and 2009-10, the general government fiscal deficit slipped to 8 per cent levels. The combined deficit of the Central and State governments crossed 7 per cent in 2015-16. In 2009 and 2010, the number hit the 8 per cent level. At the combined level, the general government deficit for FY16 was 7.1 per cent, higher than the tolerance level of 6 per cent. Main reason for this is a fall in States' own tax revenues and lower net transfers from the government did the damage for the States in 2015-16.

Conclusion

Since the attempt has been only to create an illusion of fiscal adjustment, fiscal consolidation has remained an elusive goal. Illusion of reforms has been created by placing emphasis on an inadequate measure of fiscal balance. Even in containing the fiscal deficit sufficient measures has not taken. Rather than achieving fiscal consolidation, the attempt in successive budgets has been to create the illusion of achieving fiscal correction rather than really achieving it. The government has been concealing deterioration in the fiscal balance by placing emphasis on the fiscal deficit rather than more meaningful summary measures, and frequently changing its definition and method of measurement. Analysis shows that on a comparable basis fiscal deficit reduction has been marginal. On the contrary, other fiscal indicators have shown significant deterioration. Thus the claims about fiscal adjustment are illusory.

The Centre is carefully treading the path of fiscal prudence but State finances are slipping. Most discussions in Public Finance of India revolve around the Centre's finances and its fiscal position, but how does the picture look when we take aggregate figure after combining the numbers of the Centre and all the States are considered? If we the combined picture it is not very good. Ever since the Fiscal Responsibility and Budget Management Act (FRBM) was introduced in India, state governments have largely been conservative spenders, limiting their spending far more effectively than the Union government. This trend seems to be reversing in recent years, with the aggregate fiscal deficit of states rising at a time when the aggregate fiscal deficit of the Union government has been declining.

Going forward, state finances are expected to deteriorate further. There are two main reasons for the worsening of the fiscal deficit. One of them is the implementation of the Seventh Pay Commission recommendations and second is the 'UDAY' (Ujwal DISCOM Assurance Yojana) effect. With a workforce of 12 million, as against 8 million of the Central government employees the seventh Pay Commission recommendations are expected to have a major effect on state finances of India. According to the RBI, the Seventh Pay Commission would have an impact of 0.9 per cent of GDP on the revenue and fiscal deficit of general government (over a period of 3-4 years).

The sharp deterioration in state finances over the past couple of years is partly because of the restructuring of state-run power utilities under the Ujwal Discom Assurance Yojana (UDAY). The rising concerns over the growing deficits of states are reflected in the widening spread between state development loans (SDLs) and Central government bonds. As state governments' market borrowings have risen much faster than Centre's borrowings in recent years. Secondly, the power revival package known as UDAY (Ujwal DISCOM Assurance Yojana) where States will take over 75 per cent of outstanding debt of their power distribution companies in a staggered manner is set to increase interest payments, worsening the revenue deficit figures for States. Major reforms were undertaken over the past year. GST is one of the most significant fiscal reforms of independent India. The Transformation of Goods and Services Tax (GST) was launched at the stroke of midnight on July 1, 2017. On the other hand, while higher devolution of taxes for state government recommended by fourteen finance commission from 32 per cent to 42 per cent led to higher revenue transfers from the Centre. The coming years will tell the impact of these reforms on Center and state finances. The health of public finances in India will in great measure depend upon the fiscal rectitude of state governments

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Table 1: Key Deficit Indicators of the Central Government (Rupees Crore)

Year	Gross fiscal deficit	Gross primary deficit	Revenue deficit
1991-92	36325	9729	16261
1992-93	40173	9098	18574
1993-94	60257	23516	32716
1994-95	57703	13644	31029
1995-96	60243	10198	29731
1996-97	66733	7255	32654
1997-98	88937	23300	46449
1998-99	113349	35466	66976
1999-00	104716	14467	67596
2000-01	118816	19502	85234
2001-02	140955	33495	100162
2002-03	145072	27268	107879
2003-04	123273	-815	98261
2004-05	125794	-1140	78338

2005-06	146435	13805	92299
2006-07	142573	-7699	80222
2007-08	126912	-44118	52569
2008-09	326515	133821	241273
2009-10	400996	175485	282735
2010-11	13735.91	1395.69	2522.52
2011-12	5159.90	2428.40	3943.48
2012-13	490.190	1770.20	3642.82
2013-14	5028.58	1286.04	3570.48
2014-15	5108.17	1083.04	3656.11
2015-16	5350.90	924.99	3415.09
2016-17	5339.04	412.34	3540.15

Source: Budget documents of the State Governments

Table 2: Key Deficit Indicators of Central Government (As Percentage to GDP)

Year	Gross Fiscal Deficit	Gross Primary Deficit	Revenue Deficit
1991-92	5.55	1.49	2.48
1992-93	5.34	1.21	2.47
1993-94	6.96	2.72	3.78
1994-95	5.68	1.34	3.05
1995-96	5.05	0.86	2.49
1996-97	4.84	0.53	2.37
1997-98	5.82	1.53	3.04
1998-99	6.47	2.03	3.82
1999-00	5.36	0.74	3.46
2000-01	5.65	0.93	4.05
2001-02	6.19	1.47	4.40
2002-03	5.91	1.11	4.40
2003-04	4.48	-0.03	3.57
2004-05	3.99	-0.04	2.49
2005-06	4.08	0.38	2.57
2006-07	3.45	-0.19	1.94
2007-08	2.69	-0.93	1.11
2008-09	6.14	2.51	4.53
2009-10	6.85	3.00	4.83

Source: Budget documents of the State Governments

Table 3: Measures of Deficit of State Governments of India (1990-1991 to 2016-17)

Year	Gross Fiscal Deficit	Gross Primary Deficit	Revenue Deficit
1991-92	18,900	7,956	5,651
1992-93	20,892	7,681	5,114
1993-94	20,364	4,564	3,872
1994-95	27,308	7,895	6,706

1995-96	30,870	9,031	8,620
1996-97	36,561	11,175	16,878
1997-98	43,474	13,675	17,492
1998-99	73,295	37,854	44,462
1999-00	90,098	45,458	54,549
2000-01	87,922	36,937	55,316
2001-02	94,261	32,665	60,398
2002-03	99,727	30,699	57,179
2003-04	120,631	40,235	63,407
2004-05	107,774	21,353	39,158
2005-06	90,084	6,060	7,013
2006-07	77,509	-15,672	-24,857
2007-08	75,455	-24,376	-42,943
2008-09	146,349	40,128	-10,701
2009-10	199.510	760.1	322.95
2010-11	1614.6	366.4	-30.5
2011-12	1683.19	315.4	-239.6
2012-13	2478.5	450.0	-203.2
2013-14	3271.9	789.5	105.6
2014-15	3333,3	1367.8	457
2015-16	49336	1141.8	-537.2
2016-17	4495.2	1952.8	-208.5

Source: Budget documents of the State Governments

Table 4: Key Deficit Indicators of The State Government (As Percentage to GDP), 2000-01-2016-17

Year	Gross Fiscal Deficit	Gross Primary Deficit	Revenue Deficit
1990-91	3.3	1.8	0.9
1991-92	2.9	1.2	0.9
1992-93	2.8	1	0.7
1993-94	2.4	0.6	0.4
1994-95	2.7	0.8	0.6
1995-96	2.6	0.8	0.7
1996-97	2.7	0.9	1.2
1997-98	2.9	0.9	1.1
1998-99	4.3	2.2	2.5
1999-00	4.7	2.4	2.8
2000-01	4.1	0.2	2.7
2001-02	4.2	1.5	2.6
2002-03	4.1	1.3	2.2
2003-04	4.4	1.5	2.3
2004-05	3.3	0.7	1.2
2005-06	2.4	0.2	0.2
2006-07	1.8	-0.8	-0.8
2007-08	1.5	-0.5	-0.9
2008-09	2.0	0.1	-0.5

2009-10	2.9	1.2	0.5
2010-11	2.1	0.5	-
2011-12	1.9	0.4	-0.3
2012-13	2.0	0.5	-0.2
2013-14	2.2	0.7	0.1
2014-15	2.6	1.1	0.4
2015-16	3.6	0.8	-0.4
2016-17	3.0	1.3	-0.1

Source: Budget documents of the State Governments

Table 5: Combined Deficits of Central And State Governments (Rs Billion)

Year	Gross fiscal deficit	Gross primary deficit	Revenue deficit
1991-92	458.5	148.58	219.12
1992-93	524.04	159.36	236.88
1993-94	709.52	279.38	365.29
1994-95	716.39	193.13	371.85
1995-96	776.71	185.98	379.32
1996-97	872.44	171.56	487.68
1997-98	1107.43	324.66	627.82
1998-99	1570.53	639.56	1106.18
1999-00	1848.26	743.75	1213.93
2000-01	1998.52	750.35	1388.03
2001-02	2264.25	840.39	1593.5
2002-03	2349.87	759.27	1629.9
2003-04	2345.01	569.28	1594.08
2004-05	2347.21	424.09	1147.61
2005-06	2395.6	355.83	993.12
2006-07	2191.28	-117.03	553.66
2007-08	1991.1	-596.75	96.26
2008-09	4671.35	1836.81	2408.65
2009-10	6046.68	2900.98	3700.15
2010-11	5340.32	1854.71	2492
2011-12	6849.66	2849.63	3703.88
2012-13	6843.95	2300.9	3439.6
2013-14	7497.11	2154.8	3676.11
2014-15	8365.63	2520.2	4112.24
2015-16	10245.93	3724.39	3726.96
2016-17	9799.45	2407.71	3331.67

Source: Budget documents of the Government of India and the State Governments

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A Critical Discourse on the Workforce Localisation in the Globalised Era: Some Reflections

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Abstract

Localization of workforce has emerged as one of the key challenges and priorities of international HRM. Different studies have been found in favour and against localization of workforce, mainly in the host countries of international organization. The present article attempts to identify major contemporary researches on localization with the purpose of providing valuable insights and useful information on this very difficult, though important issue. It has been found that many organizations that claim to be global, yet resist allowing host country nationals to hold official and important positions. In this context, the present research attempts to discuss the drivers of localization, factors affecting the smooth transfer of jobs to the local staff. The article has also attempted to explore some of the ethical and business reasons for assisting and resisting this process.

Keywords: Localization, Host Country, International HRM, Drivers of Localization

Introduction

Localization is an issue that affects professionals around the world. It applies as much in Eastern Europe as in East Asia and in Japanese organizations in the West or a western organization in Japan. Same examples can be highlighted from many other locations such as Middle East, China, India etc. The situation of expatriates moving from low cost locations to high-cost ones has added many other dimensions to this growing localization trends. However, this trend has caused in many countries growing tensions and uneasiness in the relations between the expatriate community and the local staffs. Sadly such tensions are not merely found in the private sector and evidence from the development sector suggests that similar levels of distrust exist. Such attitudes and tensions are unwanted and unnecessary in a rapidly globalizing world. They result in inappropriate behaviours, low morale, high staff turnover, loss of productivity and poor performance. Major investments are jeopardized, relations with key partners undermined, joint ventures at risk, valuable contacts and market relations threatened and the flow of resources or aid support potentially curtailed. Consequently, there is pressure on both international development agencies and multinational companies to manage their international

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human resources in a way that such tensions are minimized and local management talent is developed and promoted. The development of effective localization strategies and the promotion of local executives to senior positions is a major human resources issue that such international organizations need to address.

Research on Localization

Different studies have defined the concept of localization from different perspectives. According to Potter (1989), localization is the process when a local national fills a required job sufficiently competently to fulfil organizational needs. Selmer (2004) has, however, defined the concept as the extent to which jobs originally filled by expatriates are filled by local employees who are competent to perform the job. Evans et al. (2002) see localization as the systematic investment in the recruitment, development and retention of local employees and as such, as an important element in the globalization strategy of multinationals. However, the localization of key management positions has remained a key challenge for the multinational companies and international development agencies attempting to balance their global interests with the demands of rapidly changing local conditions. The evidence (Joynt and Morton, 1999) has also suggests that multinational companies continue to use expatriates to fill key positions in their overseas operations. Multinational firms explain this trend in terms of their expanding role in the global marketplace, the need to transfer skills and expertise and the advantage of giving key staff overseas experience and the application of company systems internationally.

Furthermore, expatriates are no longer merely employed by traditional large 'blue-chip' companies with well-established international interests. They are increasingly being used by companies who have little tradition of operating overseas and have little experience of working with expatriates and lack established systems to manage and support them (Brewster and Scullion, 1997***;*** Forester, 1997***;*** Forster 2000; Banai and Harry, 2004). Such pro-ex[patriate dominant observations have however been countered by a small number of researches, those focus specifically on localization and its strategic implications. Despite a plea that localization should be incorporated into the wider context of international HRM strategic thinking (Jain et al., 1998), the reality is that most research in this area is concerned with the specifics of the localization process. For example, early studies focused on developing the skills and expertise of host-country managers (Potter, 1989; Vance and Ring, 1994). Other studies drew on evidence from the studies on different countries. Cohen (1992) drew on research in Kenya to analyse the issue of so called failed retention of local employees or why it is that a disproportionate number of local staff who have been trained to take over positions previously held by expatriates did not actually fill these posts.

Leach (1993) reviewed the role and cost of expatriates in developing projects in Tanzania and another study by Hailey (1994) has examined the failure of localization strategies introduced in Nigeria in certain categories of profession. Researchers have also drawn on experience in China and Southeast Asia. Lassere and Ching (1997) in a review of the role of local mangers working for multinationals operating in China concluded that the case for localization was overwhelming. Hailey's research in Singapore and Malaysia highlighted the tensions between local staff and their expatriate colleagues and concluded that multinationals need to implement effective and transparent localization policies (Hailey, 1998). However, such conclusions were questioned by Gamble (2000), whose research examined the situation facing foreign investors in China. He argued that calls for wholesale localization of senior management positions were premature and that there was still a role for the skills, organizational networks and neutrality that expatriates provide. By the 1990s, studies analysed the practical aspects of localization in the Chinese context (Selmer and Luck 1995***,*** Lee 1999, Wong and Law 1999). More recently, research has emphasized the complex dynamics of implementing localization strategies in China (Worm et al. 2001; Fryxell et al. 2004; Law et al. 2004; Selmer 2004).

Some international companies, banks and oil companies, among others, have used host country nationals transferred to the head office or regional office to transfer knowledge from the local to the headquarters. This is seen as a useful strategy to increase cross-cultural and cross-national understanding as well as giving opportunities for career development of such inpatriates. In a study of employment creation and localization in the gulf states, Harry (2007) concluded that, despite governments' pressure to localize jobs, many employers prefer not to recruit local citizens and instead employ expatriates, who they consider cheaper, more easily controllable and more capable than most of the local staff. One explanation for this is that the supply of expatriates, in technical and managerial jobs, is much more elastic and competitive than that of host country nationals; consequently, local managers may be more expensive than expatriates. Banai and Harry (2004) also pointed out that some expatriate managers (and many others in less senior positions) see themselves as 'international interns' moving from place to place pursuing an international career and not seeking to go 'home'.

A good number of researchers have pointed out that all too often localization as a research issue has either been overlooked or treated as the flipside of the expatriate debate (Banai and Harry 2004***;*** Rowley and Benson 2004; Sparrow et al. 2004). As such it is one of those subjects in the field of international HRM. In reality, it is a human resource issue in its own right of considerable international consequence, as well as major commercial and ethical dimensions. In light of this, it is surprising how few researchers have analyzed drivers of localization and its effectiveness and value, or examined how best to localize senior management positions and what strategies are needed to develop indigenous management talent.

Drivers for Localisation

There are number of fundamental drivers behind the move to localize key management positions. These include issues around the cost effectiveness and performance of expatriates, concerns about the ability of expatriates to establish local contacts, political and ethical pressures to employ local citizens and the impact on the morale and performance of local staff of having foreign nationals in senior management positions.

Cost effectiveness and performance of the expatriates as the driver of localization have remained major areas of discussion and debate for years Bani and Harry (2004), Scullion and Brewster (2001) in their studies have opined that expatriate costs are usually a multiple of the national employee costs and expatriates are among the most expensive employees internationally. Dowling and Welch (2004***)*** have identified the higher cost of administering the expatriate employees' conditions of service. According to them, this is because of HR engagement in carrying out the cost of living comparison studies, developing tax equalization formulae and managing international careers of the expatriates. Studies by Black et al. (1999) have indicated that an expatriate employed by an American multinational costs two or three times more than a local employee employed on American soil and the same are prevalent in the countries like Singapore, UK, Spain, Hongkong, India, South Africa etc. Another study (Selmer, 2004) on China has revealed that expatriates working in China are paid four to five times more than the local staffs in comparative positions.

Study by Harzing (1995) has also identified the costs associated with expatriates who return early because of job satisfaction, social difficulties in adjusting etc. Stroh et al. (2000) have further explained through their empirical research that even many expatriates, who complete their contracts may not be able to deliver as per expectations and that also cost very high to the employing organizations. The study by *Armstrong (1987)* has added a critical dimension to this observation. In his research, Armstrong has done critical analysis of the mistakes done by the European expatriates in Tanzania. The research further concluded that the opportunity costs of failing to develop local management talent for spending the same money to compensate the expatriates in spite of the poor performance had a long-term impact on the human resource capacity scenario in Tanzania.

Different scholars have also shown and attempted to prove the other way. According to them, the lower costs of the host-country staff and their continuity of employment means that the return on investment in recruiting and training will be much higher. Harry and Collings (2006) have highlighted the benefits of improved morale and motivation of the local managers as a result of such encouragement. Black and Gregersen (1992) have however related the aspects of higher reliability of the local managers than the temporarily engaged expatriates. Gamble (2000) in his study has also highlighted the aspects of cross-cultural tensions and misunderstandings between the local employees and expatriate managers, that effect the overall organizational productivity as well. Two studies by Hailey (1994, 1998) highlighted the underlying resentment of local staff at the continued employment of expatriates, not just because of their perceived power, perks and salary, but also because of their poor performance and the way the expatriates blocked the career ambitions of talented local staff.

Another important factor of localization that has also been found to be widely debated among scholars is the *concerns about the ability of expatriates to establish local contacts*. According to *Hailey (1998),* many expatriate executives face the operational problems to adopt to the local business or to understand local marketplace. He has identified the causes such as time-bound nature of their posting and associated issues around building trust or networks of local contacts responsible for this. Banai and Harry (2004) have also highlighted the causes of inability of some expatriates to adjust to different business cultures and form effective relations. Selmer (2004) in his work has therefore, emphasized on hiring locals than expatriates to fill up vacant positions in the organizations. According to his study, the employment of talented local managers instead of expatriates has improved communication, performance and productivity in many cases.

Political and ethical pressures have also been identified as major drivers of localization of workforce. In the study by Yamani (2000) and Harry (2007), fears of growing unemployment as well as economic and demographic factors have been identified as the major cause of localization of workforce. Citing the examples of many gulf countries, both their studies have somehow termed this tendency as government's compulsion to encourage locals to fill up the positions. Sparrow et al. (2004) have focused on many examples, where local governments have shown their clear preferences of restricting the jobs for the locals, rather than expatriates. Different other benefits of localizations such as growth of local public sectors through local contracts (Harry and Collings, 2006), improved chances of foreign investments in host countries by reduction of manpower costs (Selmer, 2004), unethicality of depriving locals of training opportunities, promotional of personal support of the locals (Vance and Paderon, 1993) have also been identified as significant drivers, too.

In some other studies, factor like *'staff tensions'* has also been identified as significant drivers of localization of workforce. Most commentators acknowledge that the issue of trust lies at the heart of the localization debate (Black, J.S. and Gregersen, H.B. 1992 & Selmer et. al., 1994). Unfortunately, the evidence from a number of different studies suggests that the level distrust between local staff and their expatriate managers is both high and dysfunctional (Hailey 1994, 1998). All this supports the findings of an early study by Zeira et al. (1974), which found that local employees were dissatisfied and frustrated with ethnocentric staffing policies whereby senior executive positions are filled with expatriates. The resulting tensions fuel resentment of expatriates-their power, perks and privileges-and act as a further driver for localization. These tensions were outlined in some detail in Hailey's two studies of the perceptions of local staff working for both multinational corporations and international development agencies. Both studies highlighted the potential tensions between local staff and expatriates and raised questions about the efficacy and ethics of continuing to employ expatriates. Most local managers interviewed commented adversely on the perks and privileges of expatriates, the difficulties arising from the failure of expatriates to adjust their management style and tensions arising from cultural misunderstandings and insensitive expatriate behavior. Many felt that careers had been inhibited by the continued employment of expatriates and that the relationship of trust between colleagues seems to have been broken.

Barriers of Effective Localization and Strategies of Localization

In spite of several initiatives, major obstacles are still faced by the organizations. Micklethwait (1996) has emphasized on the problem of lack of available local manpower to fill up executive positions in many countries such as in gulf countries, Eastern Europe etc. The study has shown that the demand of skilled manpower to fill up the executive positions has been found to be widened in many of these countries due to rapid economic progress and such demands could not be met with locals only. Harry (2007) in his study has observed that in Gulf States, main emphasis was given on culture and nation building for long time. Only recently, employability based education has been found to be initiated in these countries. The same study has also highlighted the concern of preferences to government jobs by the locals in these countries. A racial or national prejudice has also been found as a major obstacle of localization in the study by Gamble (2000). His study has shown the reluctance of Chinese subordinates to work under Japanese expatriate managers in China, which in turn prevents many foreign Japanese multinationals from starting localization initiative in China by improving the skills of locals by putting them under Japanese managers and experts.

Despite the above barriers, localization has been found to emerge as a key human resource priority in many countries, organizations and industries. Many scholars have discussed on different strategies for effective implementation of localization of workforce. Based on their observations, a composite model comprising of four stages of effective localization of workforce in host countries can be developed (Figure 1).

The first stage is ensuring there is a genuine commitment to localization. Second is the design of appropriate localization strategies-the strategizing stage. Third is the application of these strategies-the localizing stage, and fourth is a consolidation stage when the new incumbents are given ongoing development support and the success of localization policy is reviewed. The *first stage* requires senior management in the parent organization and the host country operation to commit their personal support, as well as sufficient resources (especially in terms of selection and training), to ensure efforts to localize succeed. Often expatriates and foreign managers have appeared to be supporting localization while actually undermining or under resourcing the process. Without such commitment localization will be a troubled process that leads to resentment, and worse, within the organization (Nakajima and Harry, 2006). The *second stage* with its emphasis on strategizing is based on an initial clarification of goals and achievable objectives, as well as an assessment of the costs and benefits involved and the investment necessary. The evidence suggests that the development of effective strategies and appropriate objectives is crucial to ensuring the success of long term localization (Wong and Law 1999, Law et al. 2004, Harry and Collings, 2006). The *third stage* is concerned with the direct application of specific HR policies that are appropriate to the local environment and culture and have the buy-in of both host and expatriate managers (Wong and Law 1999; Fryxell et al. 2004).

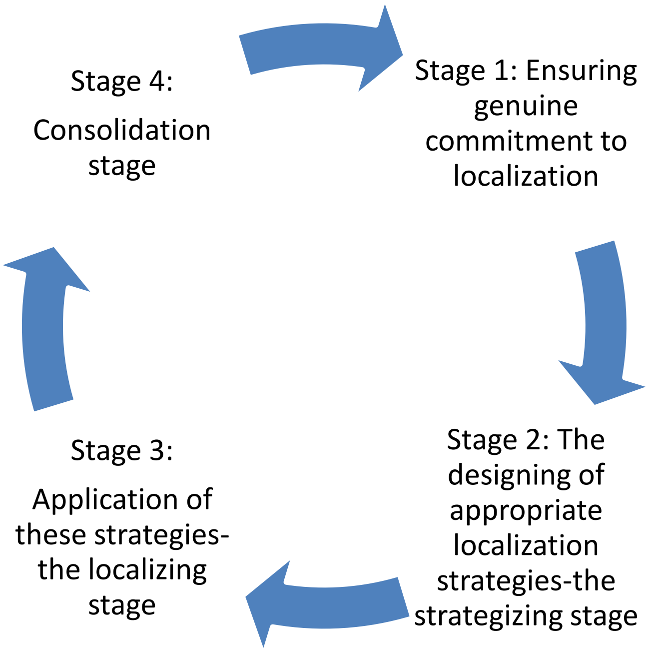

Fig: 1: Composite model of workforce localization

This localizing stage includes the establishment of effective recruitment and selection procedures to identify appropriate candidates for specific jobs, the introduction of strategies for their ongoing development and must include incentives to encourage local staff to assume the new roles expected of them (Law et al. 2004). The selected HR practices must be appropriate for the host environment and not just be brought from 'home' or headquarters and applied without taking into account expectations and standards of the local citizens. Training, mentoring and coaching are essential elements and central to the success of these strategies. Braun and Warner (2007) highlighted the importance of in-house training, assignments abroad and mentoring programmes in the development of local Chinese managers taking over posts held by expatriates. Fryxell et al. (2004) emphasize that this implementation of localization strategies is not about applying generic solutions or simple recipes, but adapting them to specific needs and the particular cultural context. The *fourth stage* occurs when locally employed staff has the necessary skills and competence to assume roles previously assumed by expatriates and the success of the localization process is evaluated and lessons learnt (Wong and Law, 1999). This stage also involves ensuring expatriate support in the development of new local managers by actively involving them in the planning of the localization process and providing them with a suitable and attractive repatriation package (Law et al., 2004; Selmer 2004) or by opening up new career opportunities (Banai and Harry, 2004). During the consolidation stage there will be feedback on the causes of successes or failures and in the localization process, aimed at improving the development of staff to replace other expatriates.

This staged approach to localization gives a structure to what is potentially a complex and divisive organizational and political issue. By taking a systematic approach with objectives and timelines, progress can be measured; obstacles can be recognized as well as dealt with. The evidence suggests that if there is a genuine commitment from senior management to effective and ethical localization then there is a high chance of success (Harry and Collings, 2006). This is particularly true if time and resources are invested in the planning stage, appropriate HR policies and practices are applied in the localization stage, and these are followed up by appropriate and timely development support and ongoing monitoring (Hailey 1998, Fryxell et al 2004, Law et al 2004).

Conclusion

It is therefore observed that localization has been a key human resource issue in its own right with major economic and ethical dimensions, but that all too often it has been overlooked as an issue for research. As such it is one of the 'Cinderalla' subjects in the field of international human resource management. This is a matter of some concern, because the evidence suggests that localization should be seen as an integral strand of any multinational organization's international strategies. The evidence suggests that it would be most cost effective and more ethically appropriate for such organizations to phase out, or at least reduce the use of expatriate managers, place greater trust in local staff and build on their experience, expertise, local knowledge and contacts. Expatriates have a useful role in many global organizations but locals have a crucial role in the success of globalization.

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Development-Induced Displacement in India: An Indigenous Perspective

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Abstract

India focused on various developmental projects as well as dam construction after independence. These were regarded as symbol of modern India, though all these helped a lot in developing India. But these mega projects also resulted in displacing millions of people from their ancestral land. The inadequate planning and implementation of various resettlement and rehabilitation policy made lives of displaced people even worse. Once they were rehabilitated no one from the respective government inquired about their wellbeing. They were totally left out the mercy of almighty. This paper is based on secondary sources, and tries to examine various issues among displaced families and their problems they faced. In this paper, it has been seen that the displaced people have faced number of problems, because the state government has not taken seriously their problems. Women and children are the worst victims as they are not considered in the resettlement and rehabilitation policies. Women have hardly any property rights on the land so they are not entitled to compensation. In the name of development, most of the people are affected who belonged to weaker section of the society.

Keywords: Development, Displacement, Resettlement and Rehabilitation issues, Indigenous People, India

Introduction

Development means the development of a society as a whole and includes not only economic and political system but also the nature of social institution, the structure of social relationship, pattern of culture, nature of values and way of life based on certain coordinal principles and ideals as the goals of human life as well as the society (Farooqui, 2009). Economic development is regarded as indispensable for the progress and prosperity of any country. Since, without development, there can be no progress and growth. It raises the living standards of people so that they are better off from their previous state. It necessarily involves creation of basic infrastructure like railways, dams, roads, shipping, power station, irrigation facilities, and established industries. Such projects are invariably required as they improve lives of people,

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provide employment to them and supply them better services (Kaushal, 2009). The fact is that economic development not only generates positive consequences but also give rise to negative consequences in the form of forced displacement and involuntary resettlement of affected people (Ibid).

Post-Independence, Indian government mainly focused on economic development which was in the shape of dams, mega dams, mining, factories and irrigations projects. All this resulting in increasing the Gross National Product (GDP) of the country, but at the same time created in involuntary displacement. The main focused of the government was development through various Five Year Plans (Mohanty, 2005). With the passage of time India began to invest more and more in heavy infrastructure development that lead towards national development and began to be considered as symbols of technological advancement (Fernandes and Raj, 1992). In Independent India, the hydropower project was considered a temple of modern India by the first generation leader. Displaced people were given only monetary compensation (Judge 1997). It is evident that the economic development strategy in India is largely nurtured at the costs of the Dalits, a large section of the victims being tribals and lower castes (Advani, 2009). People are forcibly displaced by the dam projects from their ancestral land, ancestral property, and disrupted their social relation, family structure and kinship structure (Kaushal, 2009). They are alienated from their traditional ancestral shrines, holy rivers, mountain, forests and traditional place of worship (Mishra 2002). Displacement, resettlement and rehabilitation have been serious concern for all developing countries including India. Since, last 60 years large numbers of hydropower projects has been constructed and more than 50 million people have been displaced and only 25% of displaced people were rehabilitated (Saxena, 2008). It has been seen that large number of development projects have been poorly constructed and not properly implemented resulting in an undesirable impact on environment affecting the quality of people's lives (Ibid). Development- induced displacement resulted in landlessness, homelessness, joblessness, marginalization, poor food insecurity, increased morbidity, loss of common property resources and social disarticulation (Cernea, 1990).

Magnitude of Displacement

Displacement has become a serious issue across the globe. Since independence millions of people have been forcibly displaced from their native place by the various development projects. It has been found that there is no reliable data exist on the displacement, resettlement and rehabilitation. Some studies were reported that the official sources are underestimating the displaced people by the dam project (Mohanty, 2005). Every year, more than one crore of people are displaced across the globe by different type of projects such as coal mining, dam projects, roads, defence, irrigations and majority of belong to marginalized section of the society (Kumaran, 2013)

From the Table 1 (see next page), it is clearly seen that millions of people were displaced through different kinds of projects in India and very less were rehabilitated. Resettlement and rehabilitation has become a one of the biggest issues among the displaced people and for the government authority. Till 1990, more than two crores people were forcibly displaced by dam's projects in India. Majority of them was tribal community and only 24.9% have been rehabilitated and a staggering 75.1% still await rehabilitation (Mishra 2002). According to Fernandes (2007) since independence as many as 60 million persons have been displaced, of whom a large majority have not been properly rehabilitated as yet. It has been seen that people have displaced multiple times throughout their life. According to Ray (2000) in Madhya Pradesh people were displaced four times since last 30 years by development projects such as Rihand Dams project. He further argued that in Karnataka, the Soliga tribals were also displaced two times by Kabini dam projects and also by Rajiv Gandhi National Park.

Mohanty (2009) stated that in tribal region, Industrialization become a biggest cause of tribal displacement. He further reported that in tribal region 3.13 lakh people have been forcibly displaced due to mining projects and 13.3 lakhs tribal have been displaced directly from their ancestral land. He also adds that beside the direct displacement, mining projects have also affected their livelihood of displaced people and put additional pressure on tribal families for their survival. Walter and Paranjpye (1997) stated that 25.5 lakh people have been displaced by mines, 12.5 lakh by industries, and 164 lakh by large and medium dams, 6 lakh by park and wildlife operations and 5 lakh by other projects.

Table 1: Estimate of Tribal's and other People Displaced by Development project in India during 1951-1990 (In Lakhs)

Type of project	All DPs	%	Resettled	%	Backlog	%	Tribal	% of all DPs	Resettled	%	Backlog	%
Dams	164.0	77.0	41.0	25.0	123.0	75.0	63.21	38.5	15.81	25	47.40	75.0
Mines	25.5	12.0	6.30	24.7	19.20	75.3	13,30	52.2	3.30	25	10.0	75.0
Industry	12.5	5.9	3.75	30.0	8.75	70.0	3.13	25.0	0.80	25	2.33	75.0
Wildlife	6.0	2.8	1.25	20.8	4.75	79.2	4.5	75.0	1.00	22	3.50	78.0
Others	5.6	2.3	1.50	30.0	3.50	70.0	1.25	25.0	0.25	20	1.0	80.0
Total	213.0	100.0	53.80	25.0	159.2	75.0	85.39	40.0	21.16	25	64.23	75.0

Source: Fernandes, 1997

Gender Issues in Development Projects

Gender issues are directly influential in development -induced displacement studies. Displacement has inherent concern with the compensation issues, rehabilitation problems and social issues. Policies are supposed to be meant for the benefit of displaced people, but in some way they are working in the other way. The current study attempts to examine the policy out come from displacement and resettlement. The study is focused on gender issues through various projects in India. Gender issues has become a big problems for development projects, because in India, there is no such policy in which the displaced women can get benefits from the government. There is a large debate around displacement and resettlement in India, but the existing literature has shown that minimal work has been done on the impact on displaced women. In Indian patriarchal society, women have are not given their due rights in the form of compensation on the resettlement package by the respective government. Nowhere, the land is registered in the name of women and as such they are totally neglected. Even the women head household and widow do not get any compensation after being displaced. Men are the recognised heads of household; therefore, compensation is often paid only to them (Asthana 2012).

In the traditional Indian family system, even though the widow, adult girls, deserted and divorced women living in the same household still then they are not entitled to receive any compensation. The irony is that the sons and adult male member of the displaced family are treated as one family but not for adult females (Pervez, 2008). From the ages due to patriarchal nature of the Indian society women have been neglected on all the cases. Even displaced women have to face discrimination with regard to compensation and rehabilitation package.

The Indian law and government policies also do not provide any relief to the displaced women. The gender inequality exists in all section of the Indian society, whether it may be in jobs, families or in the matter of land rights or in compensation issues (Hemadari, et al. 1999).

These gender inequalities are clearly seen in mountain regions where women are the backbone of the hill economy and most men migrate to the plains in search of jobs (Nathan 2009). Women are not given their due share in the compensation package as all the compensation whether in the form of land, and money is issued in their name of male member of the family and not jointly (Thukral, 1996). The ownership of landed property is an essential condition before one could claim compensation. Those who do not have property or those who are indirectly dependent on it could not claim compensation (Advani, 2009). It has been observed that gender bias and discrimination can be seen in the Land Acquisition Act 1984 with regard to land ownership and other issues (Thukral, 1995). Mirdula Singh and et al. (1992) observed that in the case of giving compensation the adult women, widow, daughter, divorced women are not treated as separate entity. But these are regarded as dependent up on male members of the displaced family. The policy for displaced people from Maharashtra clearly mentioned that adult women would not be entitled to any land. It has been seen that after the Independent India, there are large numbers of dam projects constructed for the economic growth, but none of the policy makers paid adequate attention towards gender issues, their policies and problems. The gender issues remain silent since India‘s independence.

Rehabilitation and Resettlement Issues in India

In India, post-independence economic development is based on large dam projects and big industries such as coal mines roads power plants which has been accompanied by widespread displacement (Pervez 2008). Majority of development projects have resulted changes in the land use pattern, water and natural resources and displacement of a large number of people from their original places of habitation (Pandey 1998). It is evident, that large numbers of developmental projects were constructed without any resettlement and rehabilitation policy. In the absence of a national Rehabilitation and Resettlement (R&R) policy, state government or even specific project authorities introduced their own principles and handled the R&R of the displaced by way of ad hoc plans (Pandey and Rout 2004). Rehabilitation measures and policies adopted by most state governments based on the LAA of 1984 embraced a very narrow approach to compensation (Dreze et al. 1997). It has been found that from 1950s to 1980s there was no such policy for displaced people. The resistance of the displaced people and civil society against the unjust rehabilitation started in 1946 with Hirakud dam in Odisha, But resistance gained momentum in the late 1970s in Narmada dam which later came to be known as the Anti-Dam movement, played a major role in forcing the state to amend their resettlement and rehabilitation policy. It also put huge pressure on the India government to formulate a national policy for resettlement and rehabilitation policy (Pervez, 2008).

The Rehabilitation and Resettlement policy was first introduced in 1985 by a committee of Ministry of Welfare. It took lot of time, and there were discussions for nearly two decades over various draft policies. The National Policy on Resettlement and Rehabilitation (R&R) for displaced families in 2003 came into force in 2004. But, there was a need to make this policy more participatory and transparent and to reduce the adverse impact of displacement. Hence, the national policy of R&R was revised and the R&R bill came out in 2007. But, this policy again failed because gender factor was ignored. The resettlement and rehabilitation policy is still open for discussion since 1985 (Pervez 2008).In India, another issue in resettlement and rehabilitation policy is lack of transparency, if we look at the existing literature we find that government authorities, NGOs, and researchers provide different data about the displaced people. Though involuntary resettlement is a very sensitive issue still the government authorities do not pay adequate attention towards resettlement and rehabilitation policy. There are data which shows how figures are under represented by government authorities Viegas (1992) revealed that the numbers of person displaced by the Hirakud dam was 1.6 lakh and while government official figures was only 1.1 lakh. Patnaik Das and Mishra (1987) stated in the case of Bargi dam on Narmada River in western MP, the project authorities said that 101 villages will be submerged. However when the reservoir was filled the number of villages submerged were 162 villages.

It has also been observed that in the absence of land for land as compensation was a great blow to the displaced people and it was very difficult to buy a piece of land elsewhere with the meagre compensations they received. Therefore, the displaced people who were cultivating the forest land suffer more as the government refused to give them compensation either in the form of land or money. Since, the land they were cultivating was declared as state land by the government. It was huge burden on the resettled, who were already undergoing severe hardships (Nayak, 2013).

Policy on Paper and on Ground

Lack of proper national policy and lacunas in the existing policy documents is a major problem. Apart from that, there are serious problems at the level of implementation as well. In most cases, there is a wide gap between the framed policy on paper and what gets translated in reality. Most state level policies or the national policies in the making, have provisions for land for land compensation. But due to several loopholes, affected people, in many cases, are just given arbitrary cash compensation (Banerjee 1997). In Sardar Sarovar dam, Gujarat has one of the most progressive rehabilitation packages, but resettling 25% of the families displaced by the reservoir has taken 15 years and there is a wide gap between the tall promises and the ground reality (Bhatia, 1997).

Nathan (2009) stated that the insufficient compensation received by displaced people resulted in impoverishment. The government or project authority did not provide sufficient amount to displaced people so that they could rebuild their social life resulting in hardship and misery for them. Compensation is based on the value of the land at the time of notification, which may be much less than its value at the time of dispossession. He further adds that bureaucratic corruption means that the amount of money that reaches the people is substantially less than the price of replacement land. Sarkar (2007) study was based on land acquisition in West Bengal. He found that how the government misguided the displaced people. He says that earlier registered farmers were promised by the government that they would get a share of 75% of produce and they would be never evicted from their land. But later on the Left Government did not fulfil its promise. The farmers were paid only 25% of the share and were also evicted from their land. He further adds that the unregistered farmers and landless labor were given nothing from the compensation.

Mander (2005) focused on delayed payment of compensation. He studied Indira Sagar Pariyojana where he found that out of 91 villages only 20 villages were compensated and rest of the villages were waiting for compensation. The study further stated that the project authority misled the displaced people. In fact, in Narmada, authorities reported that they have given land for land package. But in reality there was no such package. People were given only compensation which was inadequate.

Problem of Inter-state Dam Projects

In India, there are number of interstate dam projects which create conflict between two states. For example: Narmada dam, Tehri dam, Aliyar dam, Almati. Even the Polavaram conflict that Odisha is fighting with Andhra Pradesh is due to construction of a large dam (The wire.in/

environment). But it has been seen that when dam projects were constructed between the two states then the issue emerged regarding resettlement and rehabilitations none of the state were ready to take any kind of responsibility of resettlement and rehabilitation.

Thukral and Singh (1988) observed that there is a lack of coordination between two States. If the projects involves more than one state, an entirely new set of problems arises with regard to the distribution of benefits and costs of rehabilitation of the displaced people. For example, in Pong dam, Rajasthan being the prime beneficiary was entrusted with the responsibility of settling the displaced people. But out of 30,330 families displaced by it only 16000 families were found eligible for compensation under the colonization rules of the Rajasthan government. The displaced people belonged to Himachal Pradesh. The Rajasthan Government provided land for resettlement in Pakistan border without basic facility. But the Rajasthan government did not provide any legal title to displaced people where they were resettled. After 10 years the displaced people came back to native State and started living in hilly areas.

From the above discussion, it apparent that development- induced displacement creates lots of problems among displaced people. The land acquisition act, gender issues and rehabilitation issues and lack of transparency become challenges for the Indian government. In interstate dam projects since, two states are involved the displaced people suffer more as both the state refuse to accept their responsibility and keep on blaming each other for compensation and resettlement issues. It has been observed that in India, there are no uniform resettlement and rehabilitation policies for displaced people.

Compensation Issues

Compensation is one of the issues for development projects in India. People who are displaced from their native home land are given compensation in terms of money. In India, compensation has been given under Land Acquisition Act 1894 (amended in 1994). Under this act, most of the displaced people are not eligible to get compensation, particularly tribal and weaker sections of the society. Every state has its own resettlement and rehabilitation policy. In India, there is no uniform resettlement and rehabilitation policy for displaced people. That is why the compensation issues are bigger challenges for the policy makers as well as the state government. The displaced people have been given meagre compensation. It is very difficult for displaced people to buy a piece of land for resettlement. It has been seen that in the absence of land for land compensation, displaced people always faced hurdles in their lives. There is hardly any policy in development projects in which the affected people have been given land for land compensation. From the 1950s, onwards large numbers of dam projects are constructed but none of the policy makers paid adequate attention to compensation issues except monetary compensation in term of money.

It is evident, that in the process of resettlement the displaced people are given only monetary compensation in the form of money in exchanges loss of land, house, and other assets (Nayak, 2013). In India, it is a fact that people living in hilly areas are forest dwellers and totally depended on natural resources for their survival. Most of these do not have any legal rights on the land they use. As such these people suffer the most due to forced displacement. They do not get any compensation for their land and are forced to work as daily wagers at the new site (Agnihorti, 1996).

It has also been found that even though the displaced people are given land for land compensation by the government, but still they are not given legal ownership of that land. All this results in increasing the miseries of displaced people rather than reducing them (Nayak, 2013). He further added that the government provides loan to displaced people for their agriculture and other activities at nominal rates but some corrupt officials in the loan providing agencies discourages these people from taking government loan. Hence, all the government initiatives to reduce the problems of the displaced people have failed and have in turn resulted in increasing their problems rather than reducing them. Forced displacement has in no way been a joy full experience for the displaced people. It has increased their miseries many fold. It has been argued that unavailability of proper land, lack of proper land strategy, lack of political will have resulted in unsuccessful resettlement and rehabilitation of the displaced people (Ibid). It has also been observed that the displaced people have to spend 4 -5 years of their life to get their compensation and even after they get it, they have to get huge amount of their compensation money as a bribes to the government officials in exchanges of compensation they receives. Rest of the compensation amount is paid to the money lenders to clear off their debts (Mallavarapu, 2008).

From the above discussion it has clearly observed that in the compensation process displaced people always face plenty of problems such as land entitlement, court case for land entitlement, lack of proper documents, hostile attitude of authorities, and gender issues. Most of the displaced people misuse the compensation and depend upon daily wages. It has been seen that due to the lack of proper documents of land title, the compensation issues become a difficult among family members. These incidents have been seen among the tribal, because they have common land and they do not get any compensation.

Consequences of Displacement

India is one of the largest dam building nations in the world. There are 4291 dams in India. 3596 dams have been built and 695 dams are under construction (Patwardhan, 2000). Displacement is often regarded as a onetime phenomenon by which a person is forced to leave his/ her original place and go elsewhere (Ibid). It has been seen that a person whose land or other means of livelihood are destroyed in the process of displacement, is entitled to get just cash compensation under the land acquisition act (Kothari 1996). According to World Bank report, dam cause the largest dislocation. Approximately 66% population are displaced by dams and it submerges vast areas of agricultural lands. It tigers un-employment and hence, leads to social pressure among the oustees in villages (Das and Tewari, 2014). It has also been observed that displacement of human population has always been traumatic, dismantling the agricultural production system, loss of employment, disorganisation of social systems and breakdown of associations (Ibid). The current study attempt to highlight some displacement related issues.

The New Social Environment

Forced displacement has become a major challenged for displaced people. It affects the social economic, cultural, and political lives of people. When people are displaced they face lot of problems at new resettlement site and they are forced to adopt new social environment. It has been seen that it is very difficult for displaced people to adjust to new environment with socio-economic disturbance. People are forcibly resettled without psychological and cultural preparation. As a result they always lived under depressed conditions. In the new social environment, the displaced people face problems such as cultural crises, and adjustment problems, particularly women, children’s, and elder people. The kinship relation gets totally disturbed and all the relatives, kith and kin started living in scattered places. The younger generation find it’s difficult to cope up with the old and new cultural identity.

Verma (2004) stated that displacement in Singrauli region tore apart the social network of the displaced tribal. Before displacement the tribal were living a simple and honest life without any greed. But implementation of various developmental projects in the region resulted and creating a greed and hunger for money among the otherwise simple and honest tribal and backward people. In the new environment, people lost their traditional family values and cultural ethos, respect of elders and started quarrelling about trivial money matter, resulting in breakdown of family norms. He further observed that the elderly people were the most seriously affected one. Most of them lost their life as they could not adjust the new environment and culture. On the whole, the region became victim of social evils.

In the new social environment, many of the displaced people changed their living arrangement, attitude, culture, and way of life. Sawhney and Malhotra (2013) highlighted the positive change among displaced women. The study found that the position of women with in family and kinship networks is subject to change as with the new living arrangement in the within host community, the relationship of women with the wider society is bound to change. The study further, mentioned that earlier women could not venture out freely because of family obligations, but after displacement women got greater opportunities to participate in the work sphere and outer society. Forced displacement caused both positive and negative consequences. But most of the studies have focused on negative aspects. Sawhney and Malhotra (2013) observed that most of the displaced women faced lot of social problems at new location. Thermal (1992) stated that displacement in village along Narmada created a new problems among the displaced women as they were unable to find suitable alliance for their daughters with in the locality. They did not want their daughter to get married outside their locality as they were afraid that they may not be able to see them again. Displacement created a new social stigma among the displaced family especially women.

Singh (1999) stated that in the new location, women face additional burden of workload as they loss their livelihood, breakdown of community network create problems of marriage of daughters, rise in alcoholism and increased in domestic violence. Rawat (2012) also discussed on the effects on displaced people due to change from old to new setting. She stated that in native place the women were very happy in performing their daily task such as collecting water, fodder for livestock, household chores and agriculture activities. But in the new social setting they are quite unhappy as they have to live under constant fear of thieves, looters, and molesters. This problem is quite evident among the displaced families where the men are working outside. In such situations, the displaced women feel alienated from their close kin, friends and close neighbours. It has also been found that displacement has caused several social problems in resettlement site. It increases instances of social disturbance like alcoholism, gambling, theft, prostitution, domestic violence and wife beating. These directly affect the lives of women. In Sardar Sarovar dam resettlement sites, increased tendency of alcoholism augmented rate of domestic violence. As men become powerless, their scape goats are women and children (Kaushal 2009).

Fernandes and Raj (1992) pointed out similar kind of problems at rehabilitation colony in Odisha. They found that among displaced family, drinking and domestic violence increased after displacement. Displaced people were living in a state of trauma and most of them took to drinking to deal with trauma. Singh (1992) studied two dam projects Sardar Sarovar and Tehri dam. He stated that transitional phase is one of the crucial phase in the lives of displaced people. He further added that displaced people can lives happily if they are able to overcome the hurdles in the alien area. But due to inadequate planning the displaced people are left to struggle for years together. Verma (2004) highlighted another issues in new location. He found that in the new place caste conflicts have taken a new shape. Judge (2000) also found similar kind of problems at rehabilitation site. He found that if the same caste were found at a new location then the displaced persons do not face many problems. But if the host community belonged to caste groups different that of the displaced persons, than the conflict would invariably, start for sharing their natural resources.

Nayak (2013) pointed out that the involuntary displacement created conflicts between the host community and displaced people. Displacement resulted in competition over the use of natural resources and employment opportunities. The inclusion of new community in the host community resulted in creating various problems over the issues of caste, religion, ethnicity, cultural clashes, social problems, political problems and demographic imbalances. In most extreme cases it also resulted in caste conflicts and communal rights.

It has been seen that in the new social environment, these kind of problems always emerged and it is very difficult for the displaced people to settle in that situation. Another study also highlighted the similar kind of problems in resettlement site. Ayyar (2013) stated that in the resettlement site, people from different castes and religions live at one place and in most cases they fought with each other, accusing one another of invading their privacy and resources. They are always conflicts between the host community and displaced people. In most of the resettlement site, displaced people from different castes do not interact with each other except on rare occasion of community gatherings. Their social and religious lives mainly around their own families and neighbouring belong to their own background. It has been seen that displaced people lose their social status and are treated as development refugees by the state where as they are treated as destitute by the host community which they consider as a lifelong stigma imprinted on them. In the unfamiliar environment in rehabilitated colonies they are ill-treated and seen as encroachers and unnecessary nuisance is created by the host community (Mohanty, 2005). From the above studies it has been observed that in the new social environment, displaced people faced multiple problems such as domestic violence, family conflicts, health issues, marriage issues, adjustment problems with host community etc. It has also been seen that at the resettlement site majority of displaced people are living without basic amenities and they always face multiple problems though out their life.

Conclusion

India is a developing country and every year, a large number of developmental projects are being undertaken. Displacement especially involuntary result in forcibly displacing millions of people from their ancestral land. Inadequate planning and implementation of various developmental project often leads to various environmental problems which is turn result in deteriorating the lives of millions of people. Displacement is a disruption in social life which results in landlessness, homelessness, joblessness marginalization, poverty and food scarcity, increased morbidity, and loss of access to common property resources and social disarticulation. Most displaced and project affected persons belong to the marginalized and powerless classes, or to landless labourers and small marginal farmers with no assets. As per many independent assessments displacement has made the lives of displaced people very worst, by deteriorating their standard of living to the lowest.

It has been seen that in India there is gender discrimination among displaced men and women. After the 1950's large number of projects were constructed for the economic growth in India but none of the policy makers paid adequate attention towards gender issues and their policies. In Land Acquisition Act 1984, millions of lands in hectares have been acquired for development purpose, and people have been given only monetary compensation. Under this act, displaced women do not find any place for compensation. Compensation is generally transferred to male members and women are totally ignored in term of compensation and other activities. It has also been observed that most of the development victims belong to the poor sections of the society like Dalits, tribals, women and other backward classes. Women are the worst victims of development and displacement. Research show that that number of social problems arise among displaced women such as increased domestic violence (because the availability of cash received in compensation has led to increase in alcohol intake by men resulting in violence against women such as wife beating). Feeling of insecurity at new sites, weakness in kinship bond, breakdown of familial relationship, and conflict among family members, loss of income resources, and additional burden on women, increased in dowry demand are some of the offshoots of forced displacement.

The displaced women face multiple problems such as economic, social, and financial and health issues. It has been found that the women are the most affected one due to displacement. They do not receive any compensation since, they do not hold the legal rights of the land. Due to patriarchal nature of the society women are not treated apart with men in various jobs under resettlement and rehabilitation policies. In India, there is an absence of uniform national resettlement and rehabilitation policy. Whatever policies are there for the displaced people in the country they are not properly implemented. Large numbers of dam projects are constructed without any proper policy. The policy makers do not pay adequate attention towards the displaced people. Displaced people have given monetary compensation and left them alone. Hence, there is a need for a policy and law, which could integrate social and occupational issues related to land. The land Acquisition Act (1894), even after the amendment of 1984, does not recognize the right of land losers about their rehabilitation. It disperses them by paying monetary compensation only. Major changes are required in the Act and in the policies dealing with land acquisition so as to make them welfare oriented.

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A Comparative Analysis of Investment Patterns in Indian Public and Private Sector Banks

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Abstract

Banks mobilize deposits and employ these in their investment and lending activities for profitable purposes. Banks in India are required by regulation to invest a sizable proportion of their funds in specified securities to meet the requirements of Statutory Liquidity Ratio (SLR). Banks also invest their funds in non SLR securities as part of treasury operations or otherwise keeping in view their expertise, experience, business needs and overall asset composition. These SLR and non SLR investments are transacted in accordance with regulatory norms set by the Reserve Bank of India (RBI), the banking regulator in India and disclosed accordingly in the annual reports of the banks. Banks make investments both in domestic and overseas markets in suitable proportions. The non SLR investments are directed in a variety of instruments and disclosed in terms of issuer specific details as well as in securities through modes of private placements, unrated securities, below investment grade instruments and unlisted securities etc. Disclosure by banks in these classifications reflect on risk factor of concerned securities and soundness of banks' judgment in investment decisions The paper analyses various nuances of investment pattern of Indian banks, in public and private sector.

Keywords: Bank investments, Credit Deposit Ratio, Investment Deposit Ratio, Non-SLR Securities, SLR Securities, Statutory Liquidity Ratio, India

Introduction

Banks mobilize deposits and employ these in their investment and lending activities for profitable purposes. Banking regulation in India mandates banks to invest a sizable proportion of their funds in approved securities to meet the requirements of Statutory Liquidity Ratio (SLR), which is presently 19.5% of demand and time liabilities of respective banks. In addition to investment in SLR securities, banks invest in other investments instruments also which may comprise of Government securities, bonds of public sector undertakings, corporate equities, debt instruments and commercial papers etc. Sometimes banks have also to take exposure in certain specified funds to compensate for shortfall in their commitments towards priority sector loans as per regulatory norms. These investments help banks in risk diversification, provision of liquidity and capitalizing on profitable opportunities available in the market. The operating costs of investment function is also relatively much less than loans and advance dispensation.

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Regulatory Perspective

In terms of regulatory guidelines issued by the Reserve Bank of India (RBI), the bank regulator in India, banks have to conduct their investments operations in accordance with the investment policy formulated by their Board of Directors. Banks have to ensure that operations in securities are conducted in accordance with sound and acceptable business practices (RBI, 2015). Further, there has to be a clear functional separation of trading and, settlement and accounting, with adequate internal control and audit mechanism. Investment proposals have to be subjected to the same degree of credit risk analysis as any loan proposal along with regular tracking system for financial position of the issuer (RBI, 2015).

As far as investments in non SLR securities is concerned, banks normally take exposure in such securities of more than one year maturity and also those which are listed ones with exception allowed in the case of bonds of infrastructure companies. Bank's investment in unlisted non-SLR securities cannot exceed 10 per cent of its total investment in non-SLR securities at the close of the previous financial year, and proper disclosure requirements and risk management system are to be implemented. The prudential exposure norm stipulates that aggregate exposure of a bank to the capital markets in all forms (both fund based and non-fund based) should not exceed 40 per cent of its net worth as on March 31 of the previous year. Within this overall ceiling, the bank's direct investment in category of shares, convertible bonds/debentures, units of equity-oriented mutual funds and Venture Capital Funds (VCFs) should not exceed 20 per cent of its net worth (RBI, 2015).

As per provisions of Banking Regulation Act, 1949, in the balance sheet of banks, investments are disclosed in following components, viz. (a) Government securities, (b) other approved securities, (c) Shares, (d) Debentures & Bonds, (e) Subsidiaries / joint ventures and (f) others (commercial papers, and mutual fund units, among others). Banks' investment portfolio (including SLR and non SLR securities) is classified in three categories viz. (i) Held to Maturity (HTM), (ii) Held for Trading (HFT) and (iii) Available for Sale (AFS). The category of the investment is decided at the time of acquisition and the decision has to be recorded on the investment proposals. The HTM securities are those that are acquired by the banks with the intention to hold them up to maturity and normally cannot exceed 25% of total investment portfolio. These mainly form SLR component of banks. The HFT securities comprise those acquired with the intention to trade by taking advantage of the short-term price/interest rate movements. The securities which do not fall within the above two categories are classified under AFS category. Banks have the freedom to decide on the extent of holdings under HFT and AFS. The investments in last two categories are marked to market for valuation in the balance sheet.

Literature Review

Rimpi Kaur and Pallavi Manik (2012) analysed the investment pattern of Indian banking industry in terms of selected ratios during the period 2001- 02 to 2010 -11 and concluded that Indian banks were concentrating more on advances as compared to investment. "There was also a downfall in the income of banks, because ROI was lesser as compared to interest income". As regards investment pattern nationally v/s internationally, it highlighted "the decreasing share on investment outside India especially by private and foreign banks". Lakshmi K (2011) studied the differences in the level of foreign portfolio investment in public sector and private sector banks and found that "the foreign portfolio investment in private sector banks was higher than the public sector banks, when FIIs investment is considered as a percentage of total shareholding. However, when FIIs shareholding is measured as a percentage of free float shares, the difference disappears".

Bhavet et el (2013) reported that “an investment policy should ensure maximum profit and minimum risk. A sound lending & investment policy is not only prerequisite for a bank's profitability but also crucially significant for the promotion of commercial savings of a developing country like India”.

In another study by Mihir Dash et al. (2009), performance of public sector banks was compared with private/foreign banks under the CAMELS framework and results showed that “private/foreign banks fared better than public sector banks on most of the CAMELS factors in the study period. The two contributing factors for the better performance of private/foreign banks were management soundness and earnings and profitability”. It has been observed that there is lack of adequate literature on the study of investment pattern in Indian commercial banks and to fill up this gap to some extent, the present paper attempts to analyse this aspect.

Indian Banking Structure

The banking landscape in India is dominated by public sector banks consisting of (i) State Bank, now consisting of entity formed by merger of State Bank of India and its five subsidiaries from April, 2017, hereafter called State Bank Group, and (ii) 20 other Nationalised Banks. In the wake of economic reforms initiated in 1990s, many private banks were started in India, out of which only seven survive as of now and all are covered in this study as private sector banks. Two new private sector banks have also come up recently, but not covered being new ones in operations. Before the advent of (new) private sector banks, about 13 (old) private sector banks also existed but these have not been covered as they are relatively of smaller size with low investment component.

Objective of Study

The study aims to anlyse the investment patter of Indian banks in terms of various aspects viz. domestic and international investments, proportion of investments and advances to total assets, Credit- Deposit ratio and Investment- Deposit ratio, exposure in Government securities etc.

Data and Methodology

The study has been based on secondary data derived from Statistical Tables relating to Indian Banks as available on the website of Reserve Bank of India (RBI, 2018). For the purpose of analysis, investment data of all public sector banks and seven private sector banks has been culled from RBI Statistical Tables relating to Indian Banks and transformed into reflective tables based on which trend of investment patterns of Indian banks – both in public and private sector, in various aspects, has been examined for results.

Investment Deposit Ratio

Deposits are major source of funds in banking institutions and Credit Deposit ratio (CD Ratio) reflect the proportion of deposits deployed for lending activity. In contrast, the Investment Deposit ratio (ID Ratio) indicates investment component emanating from deposits. Where aggregate of CD and ID ratio is more than 100%, it is indicative of fact that funds other than deposits have been deployed for creating credit or investments. The pattern of CD ratio and ID ratio in various bank groups in India in the last five years is depicted below:

Table: 1: CD ratio and ID ratio of various bank groups (figures are in %)

Year (March)	Ratio	State Bank of India group	Public sector Banks	Private sector Banks	Foreign Banks	All Scheduled commercial Banks
2017	CD	72.29	68.78	86.54	71.39	73.03
2016	CD	82.54	74.72	90.30	79.24	78.24
2015	CD	82.07	80.85	86.36	73.77	78.32
2014	CD	85.57	82.6	84.37	74.29	78.93
2013	CD	85.22	91.51	81.90	74.96	79.14

Year (March)	Ratio	State Bank of India group	Public sector Banks	Private sector Banks	Foreign Banks	All Scheduled commercial Banks
2017	ID	36.44	31.62	33.34	51.50	32.86
2016	ID	32.4	30.03	37.18	61.30	32.97
2015	ID	29.79	62.31	36.42	28.12	31.56
2014	ID	28.58	73.90	40.76	30.49	33.79
2013	ID	29.22	79.15	44.84	31.16	35.17

Source: Computed from RBI, Statistical Tables relating to Indian Banks, March, 2013 to March, 2017 (https://rbi.org.in)

The table reveals that, currently, on aggregate basis, CD ratio has been at 73% and ID ratio at 32.9%. Both CD and ID ratios have been declining in last five years, for all banks as a whole. While private sector banks have highest CD ratio at 86.5% in the current year (higher than even foreign banks), public sector banks, showing a declining trend, have reduced it to 68.7% in 2017 from 91.5% in 2013. Only private sector banks have shown increasing trend in CD ratio indicating deposit financed credit growth. All other banks groups, including foreign banks have shown a declining trend of CD ratio.

On ID ratio, while public sector banks have tapered their ratio, showing a sharp decline from 79% to 32%, State Bank group has witnessed a steady uptick in ID ratio from 29% to 36% in last five years. The private sector banks, on the other hand, have reduced their ratio from 45% to an all bank average level of 33%. Foreign banks, however, have given an upward push to ID ratio from 31% to 51 % in last five years. These foreign banks maintain specialized treasury and investment departments to capitalize on profitable opportunities in securities markets. The ID ratios, therefore, presents a varied spectrum.

Domestic and International Investments

The Indian banks are allowed to make investments both in India and outside India and have to reflect the two in the Balance Sheet separately. The components of total investments in India and outside India are depicted in following statements, separately for public sector and private sector banks:

Table: 2 Investments within and outside India

2A: Public Sector Banks (PSBs)

		Investments (2017)		Investments (2016)	
Sl. No.	Bank	In India (%)	Outside India (%)	In India (%)	Outside India (%)
1	Allahabad Bank	99.5	0.5	100.0	0.0
2	Andhra Bank	99.8	0.2	99.7	0.3
3	Bank of Baroda	93.6	6.4	92.1	7.9
4	Bank of India	96.0	4.0	95.6	4.4
5	Bank of Maharashtra	100.0	0.0	100.0	0.0
6	Canara Bank	99.4	0.6	99.3	0.7
7	Central Bank of India	99.9	0.1	99.9	0.1
8	Corporation Bank	100.0	0.0	100.0	0.0
9	Dena Bank	100.0	0.0	100.0	0.0
10	IDBI Bank Limited	100.0	0.0	100.0	0.0
11	Indian Bank	97.2	2.8	95.2	4.8
12	Indian Overseas Bank	94.9	5.1	95.6	4.4
13	Oriental Bank of Commerce	100.0	0.0	100.0	0.0
14	Punjab And Sind Bank	100.0	0.0	100.0	0.0
15	Punjab National Bank	97.0	3.0	96.6	3.4
16	Syndicate Bank	98.0	2.0	98.9	1.1
17	Uco Bank	97.2	2.8	97.5	2.5
18	Union Bank of India	98.3	1.7	98.4	1.6
19	United Bank of India	100.0	0.0	100.0	0.0
20	Vijaya Bank	100.0	0.0	100.0	0.0

Source: Computed from RBI, Statistical Tables relating to Indian Banks, (RBI, 2018)

2B: Private Sector Banks

		Investments (2017)		Investments (2016)	
Sl. No.	Bank	In India (%)	Outside India (%)	In India (%)	Outside India (%)
1	Axis Bank	97.8	2.2	98.1	1.9
2	DCB Bank	100.0	0.0	100.0	0.0
3	HDFC Bank.	99.5	0.5	99.3	0.7
4	ICICI Bank	95.5	4.5	94.9	5.1
5	Indusind Bank	100.0	0.0	100.0	0.0
6	Kotak Mahindra Bank	99.9	0.1	100.0	0.0
7	Yes Bank	99.6	0.4	100.0	0.0

Source: Computed from RBI, Statistical Tables relating to Indian Banks, (RBI, 2018)

It is revealed that Public sector banks make investments predominantly in India. Barring two banks, in which investments of nearly 5% are abroad, rest of them have more than 95% investments made in Indian securities only. The overseas investments of most PSBs are insignificant. Similar to public sector banks, private sector banks also reflect the same pattern of their investments, showing predominant exposure in domestic securities. Only ICICI Bank has about 5% investments abroad and that too largely in its subsidiaries/ joint ventures, while in others, it is zero or less than 2.2%. Thus, both public sector and private sector banks have preferred to keep their investment substantially in India. A negligible percentage has been invested outside India. A large share of investments of banks is in SLR instruments which are in the form of Indian securities only. Also, the return on investments in India is better than overseas securities. Thus, banks prefer to invest largely in Indian paper.

Investment to Total Asset Ratio

The deployable funds are invested by banks in loan assets and investments in various kinds of securities. The proportion employed in the two segments depends upon business strategies of respective banks, regulatory provisions and nature of instruments available. The proportion also varies from time to time and bank to bank; the current pattern is reflected in the following table:

Table 3: Investment to Total Assets ratio in Banks
3 A: Public Sector Banks

		Mar 2017		Mar 2016	
Sl. No.	**Bank**	**% advances**	**% investments**	**% advances**	**% investments**
1	Allahabad Bank	63.6	23.3	63.5	23.8
2	Andhra Bank	61.6	26.9	65.4	26.9
3	Bank Of Baroda	55.2	18.7	57.2	17.9
4	Bank Of India	58.5	20.4	58.9	19.5
5	Bank Of Maharashtra	60.0	24.2	66.8	22.5
6	Canara Bank	58.6	25.8	58.7	25.7
7	Central Bank Of India	41.8	27.6	58.9	29.1
8	Corporation Bank	56.6	25.8	59.7	26.9
9	Dena Bank	56.0	30.7	61.7	26.4
10	IDBI Bank Limited	52.7	25.7	57.5	24.8
11	Indian Bank	58.5	31.0	63.3	26.1
12	Indian Overseas Bank	56.8	28.9	58.6	28.9
13	Oriental Bank Of Commerce	62.3	23.4	62.1	27.6
14	Punjab And Sind Bank	60.4	28.9	62.3	26.9
15	Punjab National Bank	58.2	25.9	61.8	23.7
16	Syndicate Bank	66.8	21.9	65.4	22.3
17	Uco Bank	51.8	32.0	51.4	34.3
18	Union Bank Of India	63.3	24.8	66.1	22.0
19	United Bank Of India	46.9	37.6	52.6	34.6
20	Vijaya Bank	61.0	28.7	61.2	28.8

Source: Computed from RBI, Statistical Tables relating to Indian Banks, (RBI, 2018)

Majority of banks have investment proportion of total assets between 20-30%, with just two banks about 35%. Correspondingly, most banks have deployed funds in advances in ratio of 55-65%. The advances component obviously is always larger in banks as it is main function of banks and return on advances is relatively better.

3 B: Private Sector Banks

		Mar 2017		Mar 2016	
Sl. No.	**Bank**	**% Advances**	**% investments**	**% Advances**	**% investments**
1	Axis Bank	62.0	21.4	62.8	24.4
2	DCB Bank	65.8	24.2	67.6	22.7
3	HDFC Bank	64.2	24.8	62.7	26.4
4	ICICI Bank	60.1	20.9	60.4	22.3
5	Indusind Bank	63.3	20.5	61.9	23.8
6	Kotak Mahindra Bank	63.4	21.0	61.7	26.7
7	Yes Bank	61.5	23.3	59.4	29.6

Source: Computed from RBI, Statistical Tables relating to Indian Banks, (RBI, 2018)

All private sector banks have investment component in 2017 between 20-25%, slightly lower than public sector banks. However, in 2016, three banks had it somewhat higher being in the range of 25-30%. The advances ratio in private banks is between 60-65%. It emerges that banks deploy larger proportion of assets in credit, the main reason for which stems from the fact that credit is main operation in banks and return from advances is better than return from investments by nearly 1.5% as reflected from following table:

Table 3C: Return on Investments vis a vis Advances – Bank group wise (2016-17)

Sl. No.	Bank Group	Return on Investments (%)	Return on advances (%)
1	State Bank Group	7.26	8.29
2	Nationalised Bank Group	7.61	8.51
3	Private Sector Banks Group	7.49	9.99
4	Foreign Banks	6.89	8.77
5	All Scheduled Commercial Banks	7.45	8.86

Source: RBI Statistical Tables relating to Indian banks (2016-17) (https://rbi.org.in)

However, banks have to deploy a reasonable proportion in investments to meet needs of SLR ratio, liquidity purpose, risk diversification, ease of shuffling and availing profitable opportunities in business.

Investment in Government Securities

Of the total investments, banks deploy a significantly large component in Government securities as shown in the following table:

Table 4: Investment in Government Securities

Sl. No.	Public Sector Banks	Investment in Govt Securities (%)		Private Sector Banks	Investment in Govt Securities (%)	
		2017	2016		2017	2016
1	Allahabad Bank	86.5	81.4	Axis Bank	72.2	73.4
2	Andhra Bank	93.6	92.2	DCB Bank	82.0	92.0
3	Bank Of Baroda	88.1	86.1	HDFC Bank	75.7	80.5
4	Bank Of India	88.7	90.4	ICICI Bank	69.7	70.3
5	Bank Of Maharashtra	85.8	89.2	Indusind Bank	85.7	82.5
6	Canara Bank	90.5	89.2	Kotak Mahindra Bank	80.3	79.5
7	Central Bank of India	80.4	74.9	Yes Bank	72.0	72.0
8	Corporation Bank	84.1	85.7			
9	Dena Bank	86.9	85.4			
10	IDBI Bank	90.2	87.2			
11	Indian Bank	86.6	79.3			
12	Indian Overseas Bank	85.0	84.0			
13	Oriental Bank of Commerce	84.1	79.3			
14	Punjab And Sind Bank	76.1	76.3			
15	Punjab National Bank	79.1	80.1			
16	Syndicate Bank	89.6	87.5			
17	Uco Bank	83.4	86.2			
18	Union Bank of India	78.9	80.8			
19	United Bank of India	72.3	81.0			
20	Vijaya Bank	90.1	84.0			
	Average	85	84	Average	76.8	78.6

Source: Computed from RBI, Statistical Tables relating to Indian Banks, (RBI, 2018) (https://rbi.org.in)

The average ratio of Government securities (out of total investments) for public sector banks stands at 84.5% and is above 75% in all these banks. The corresponding proportion for private sector banks is relatively lower at 78% with minimum at 70 %. The public sector banks prefer to place more funds in government securities because of their conservative risk profile. The high volume of investment in Government securities emanates from the norm of 19.5% (of demand and time liabilities) as SLR which is largely to be invested in Government paper.

Bank wise Investment Deposit Ratio

This ratio signifies the proportion of deposits deployed in investment function (ID ratio) and is complementary to Credit Deposit ratio (CD). The aggregate ratios for various bank groups were analysed in paragraph 7. The ID and CD ratios for all scheduled commercial banks, at last available figures, were at 33% and 73%. The ratios for individual banks in two categories of banks present an interesting pattern depicted in following tables:

Table 5: CD and ID ratio of Individual Banks

5 A: Public Sector Banks

Sl. No.	Bank	2017			2016		
		CD ratio (%)	ID ratio (%)	Total CD and ID ratio (%)	CD ratio (%)	ID ratio (%)	Total CD and ID ratio (%)
1	State Bank of India	76.83	37.46	114.30	84.57	33.26	117.83
2	Allahabad Bank	74.68	27.31	101.99	75.94	28.49	104.43
3	Andhra Bank	70.02	30.54	100.56	75.04	30.90	105.94
4	Bank of Baroda	63.70	21.54	85.24	66.85	20.98	87.84
5	Bank Of India	67.86	23.67	91.53	70.02	23.17	93.18
6	Bank of Maharashtra	68.69	27.75	96.44	77.39	26.07	103.46
7	Canara Bank	69.05	30.34	99.39	67.68	29.66	97.34
8	Central Bank of India	46.99	31.04	78.03	67.63	33.39	101.01
9	Corporation Bank	63.64	29.05	92.69	68.39	30.84	99.24
10	Dena Bank	63.69	34.87	98.57	70.11	30.00	100.11
11	IDBI Bank	71.06	34.61	105.67	81.25	35.00	116.25
12	Indian Bank	69.97	37.01	106.98	72.38	29.78	102.16
13	Indian Overseas Bank	66.46	33.85	100.31	71.65	35.27	106.92
14	Oriental Bank of Commerce	71.90	27.00	98.90	71.26	31.70	102.97
15	Punjab And Sind Bank	68.20	32.67	100.87	70.05	30.30	100.34
16	Punjab National Bank	67.47	30.03	97.51	74.55	28.54	103.10
17	Syndicate Bank	76.63	25.12	101.76	76.94	26.22	103.15
18	Uco Bank	59.48	36.77	96.25	60.79	40.54	101.33
19	Union Bank of India	75.71	29.64	105.34	78.01	26.03	104.04
20	United Bank of India	52.10	41.78	93.88	58.47	38.42	96.89
21	Vijaya Bank	71.08	33.40	104.48	70.94	33.36	104.30
	Average	67.4	31.2	98.6	71.9	30.6	102.5

Source: Computed from RBI, Statistical Tables relating to Indian Banks, (RBI, 2018)

In public sector banks, ID ratio is between 20-30% in eight banks and in the range of 30-40% in twelve banks and more than 40% in one bank, with an average of 31%. The corresponding average credit deposit ratio in public sector banks has decreased from 71.9% to 67.4% in last two years. Fifteen banks deployed funds more than deposits in credit and investment function by use of other resources. On overall basis, banks deploy almost double of their funds invested in securities (which is around 30%) in their advances portfolio.

5 B: Private Sector Banks

Sl. No.	Bank	2017			2016		
		CD ratio (%)	ID ratio (%)	Total CD and ID ratio (%)	CD ratio (%)	ID ratio (%)	Total CD and ID ratio (%)
1	Axis Bank	90.03	31.08	121.11	94.64	36.74	131.38
2	DCB Bank	82.00	30.16	112.16	86.57	29.03	115.60
3	HDFC Bank	86.16	33.32	119.48	85.02	35.84	120.86
4	ICICI Bank	94.73	32.96	127.69	103.28	38.06	141.35
5	Indusind Bank	89.34	29.00	118.34	95.07	36.62	131.69
6	Kotak Mahindra Bank	86.44	28.63	115.07	85.59	36.97	122.56
7	Yes Bank	92.57	35.02	127.59	87.91	43.72	131.62
	Average	88.8	31.5	120.2	91.2	36.7	127.9

Source: Computed from RBI, Statistical Tables relating to Indian Banks, (RBI, 2018)

The ID ratios in private sector banks are at relatively higher levels, the average being 31.5% in 2017, reduced from 36.7% in the previous year. Credit Deposit ratio is also at higher level of 89%, suggesting deployment of resources from sources other than deposits. The total of CD and ID ratio, at average level, is also relatively much higher in private banks being in range of 120%.

Conclusion

It emerges that the investment pattern in Indian commercial banks is a varied spectrum. The average investment deposit ratio in all scheduled commercial banks group is about 33% with relatively higher proportion in State Bank group (36%). This ratio is substantially higher in foreign banks (51%) where it has shown an increasing trend in last five years. Of the total volume of investments, domestic exposure is dominating in all banks, within range of 90-100%. Within total assets, investments comprise in range of 24-26% in banks. Banks deploy more funds in advances, being main operational area of banking business and return from credit is slightly higher therein. Banks make a return of around 8.7% in credit as compared to 7.5% in investments. Overall, the investment pattern of banks depict a peculiar pattern that is guided by various factors that include their expertise level in securities markets, regulatory provisions, business strategies and fund position from time to time.

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From Corporate to Community: Journey of a Social Entrepreneur

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Abstract

This article is based on an interview with Prashant Pal, Founder and Chief Executive Officer, Pure India Trust. Prashant graduated in science and obtained Master's degree in Management from Maharshi Dayanand Saraswati University. Before taking a plunge in social activism, he worked with Accenture Ltd., Tata Teleservices, Aegis People Support, IBM Daksh, Bharti Airtel, Idea Celluar Ltd., Fareportal, etc. Prashant set up Pure India Trust in 2013 after having successful and significate corporate stint at leadership positions in various organizations. In this interview he shares insights from his journey from successful corporate life to a leading social entrepreneur of North India. Srirang Jha conducted this interview for the scholarly community as well as practising bureaucrats, managers, leaders, political activists, social workers and philanthropists.

Keywords: Pure India Trust, Skill and Entrepreneurship Development, Empowerment of Women

What triggered formation of PURE India?

I come from a village Manoharpura in Karauli district of Rajasthan. The district is one of the least developed (aspirational) districts of India. Level of education in my villages is really low. There was hardly any person who passed 10th class till 1990 from our village. Hence, I always had a desire to work for such poor people who are not aware about the development and still living in really bad conditions. I was lucky to get education somehow and I got opportunities to work with a few world-class corporate houses. But my life turned for good when Anna Hajare Ji was staging his fast in Delhi to fight against corruption and I was working in Philippines. The Anna movement motivated me to convert my desire to help poor in reality and I came back to India in 2012 and started the NGO in Mar 2013 with intent to help poorest of poor in the field of education and employment.

What are the vision and mission of PURE India?

Our vision is to create an environment which inspires every youth to be confident of achieving a better quality of life and become a responsible citizen. Following are our key goal statements:

- Provide skill training and entrepreneurial opportunities to 500 women
- Achieve less than 10% School drop-out rate in government schools
- Provide career mentoring to 50000+ students

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In the current scenario, what are the problems faced by institutions like PURE India in the country?

I personally feel that there will always be some problems around and that inspire me to work hard and focus on continuous improvements. However following are some of the challenges we face in our day to day operations:

- Corporate decisions to work in the villages or areas near their offices only and this do not allow them to consider and approve projects coming from such districts / villages which are more than 20-30 KM away from their offices.
- Challenges of reaching out to decision makers or right contact person in different corporate and this is a bigger challenges as our project may not reach for consideration.
- Corporate policy of considering project for one year duration only
- Challenges from community people are different as now a day we find most of the youth do not focus much of real learning or gaining skills to succeed but always look for short cuts to gain quick money. It create lot of challenges in identifying really needy people who need support to be successful
- As the same time we face challenges of identifying workforce for our NGO and not many people are sensitive to work with a mind set to support people but to want to work for money only.

What are the thrust areas of PURE India?

Our mission is to deliver quality education and provide employment opportunities to women from under-served community. In short below are our thrust areas:

- Holistic development and strengthening educational foundation of 1-8 grade students
- Empowering women by skill and entrepreneurship development
- Provide career mentoring to students of 8-12 grades to ensure students take right career decision at right time so that they not spend time in doing degrees which are not of their interest

How do you mobilize resources for PURE India?

Mobilization is our expertise and we use different tools to mobilize people:

- We believe in “word of mouth” publicity and many of our beneficiates bring people to us
- We have built strong relationships with Anandwari workers and local active women. We use them as our brand ambassadors to encourage local people to take advantage of our NGO activities
- We invite most if the village/slum people to come and visit our center and see the activities happening and try and get advantage from the services
- We have also help more than 12 women to become entrepreneurs now from 12 different villages and all of these women are our point of contact for local people and they are also our showcase success stories to local people
- We organize parent teachers meeting at our NGO every month and the family members and mother of our children refer other local people many a times to our
- To enter into new market we get connected with local schools, Skill centers, NGOs, Women self- help groups, Anandwaris, community centers
- We also distribute templates and use announcement to create a quick publicity

How do you look at the experiences of working with the communities in different states of the country?
We have been working in Delhi NCR, Rajasthan, Haryana and UP. We find different challenges/ have different learning from different community as micro level but at macro level challenges are same. However we are very flexible in working as per the need of the local community and we customize our activities based on the local needs.

How PURE India has evolved over the years?
We started PURE India Trust in 2013 and in the initial years we put in our own money wherever help was needed and it was initially a hobby or a weekend activities but later while working with different NGOs/Schools we learnt that doing mere activities would not bring sustainable development so in 2015 we started our own development center at Delhi and slowly we have increased our foot prints across North India. We have grown at faster pace with the help of many individual corporate people and they started contributing to our NGO.

What are the major accomplishments of PURE India?
Following are some of the achievements we have so far:

- One Student got "National Bravery award 2016" from honorable PM of India
- Students supporting directly or indirectly : 3000+
- Free Computer labs established in villages : 15
- Students educational encouragement Scholarships : 180+
- Girl educational encouragement Scholarships : 54+
- Currently students studying at 3 owned centers : 300+
- English Learning Labs established in villages : 8
- Book Libraries established : 6
- Women provided "beauty wellness Skill Training : 24
- Youth provided "Advance computer training" : 84
- Youth provided employment in organized sector : 23
- Number of free medical checkup camps organized : 9
- Number of free dental checkup camps organized : 1
- Number of free eye checkup camps organized : 1
- Number beneficiaries from medical camps : 1200+

How do you measure impact of your social interventions?
Impact assessment is a continuous process in our NGO. We are a group of corporate people and I am personally is a Six Sigma Master Black belt so I believe in measuring impact of our every action. Following are some of tools used by PURE India

- Success stories of children / women from our NGO means Before and now status
- Quarterly Score card of our students
- Participation of different students in our different activities
- Salary / amount earned by our students from different skill learned / businesses started
- Number of people come to us from a word of mouth
- Number of people skilled and employed at different level
- Number of students enrolled in higher education with our scholarships
- Number of drop our student come back to our NGO and re-start their educations
- Number of women re-start their education / skilling process after marriage
- Number of people get successful and come back to us
- Number of student work with us a volunteers to help other student to grow

How do you see PURE India growing and contributing during next ten years?

We believe in the maxim "sky is the limit" and as an NGO we want to bring highest recognition for India in the field of social service ….. In short

- We want to bring another "Nobel prize" for India in next few years
- We will expand our operations not across India but also in other countries to help thousands of poor children and women.