NEWS ITEMS ON CAG/ AUDIT REPORTS (10.05.2022)

1. CAG vs govt: The growing tussle between the auditor and the audited *(business-standard.com)* 10 May 2022

https://www.business-standard.com/article/economy-policy/cag-vs-govt-the-growing-tussle-between-the-auditor-and-the-audited-122050901200_1.html

2. The defence offset quagmire *(financialexpress.com)* May 9, 2022

There is a view that the vendors are not very keen to honour their offset obligations and purposely delay execution of the offset contracts on one pretext or the other in the hope that, ultimately, they will be able to get away with it by paying some nominal penalty.

The Ministry of Defence (MoD) seems to be unable to figure out what has gone wrong with the offset policy introduced with much fanfare in 2005 and how to fix the problems it has engendered since then.

At the last count, MoD had signed 57 offset contracts with several foreign vendors, involving an estimated offset obligation of USD 13.52 billion to be discharged by them from 2008 to 2033. According to a March 2012 report of the Standing Committee on Defence, these vendors had submitted offset claims worth S 4.59 billion till January 2022, which was USD 2.21 billion less than the value of claims due to be submitted by them.

In April, Minister of State for Defence Ajay Bhatt informed Rajya Sabha that in the last five years till December 2021, vendors had defaulted on their offset obligation in 21 contracts resulting in the value of the unperformed offsets going up to USD 2.24 billion. In 16 of these contracts, he added, a penalty amounting USD 43.14 million had been imposed.

To add to this grim picture, out of USD 4.59 billion worth of claims received by MoD, it was able to 'dispose of' claims -implying acceptance of offset credit to be given to the vendor after audit-worth USD 3.37 billion only. The rest of the claims were still being audited by the Defence Accounts Department or awaiting response to the audit observations from the vendors.

This reflects poorly on the offset policy which has been reviewed, revised, improved, and simplified at least six times since 2015, evidently without producing the desired results. For one thing, there has hardly been any transfer of technology, and for another, most of the offset business has been garnered by a handful of Indian companies, though the downstream companies have also indirectly benefited.

In the circumstances, MoD has been doing what it does the best: blaming the vendors for the poor performance.

There is a view that the vendors are not very keen to honour their offset obligations and purposely delay execution of the offset contracts on one pretext or the other in the hope that, ultimately, they will be able to get away with it by paying some nominal penalty.

In September 2020, Comptroller and Auditor General (C&AG) of India submitted a performance audit report on management of defence offsets, which had this to say: "Audit found that in many cases vendors make offset commitments in order to get the main contract. But later they were not earnest about fulfilling these commitments and raised new issues which delayed offset implementation."

The report goes on to detail four instances of dilly-dallying by the vendors. However, the inference drawn in each one of these is debatable, as the underlying assumption in all of them is that the vendors faced no genuine difficulties in discharging the contractual obligations and that MoD's intransigence played no part in it.

It is unthinkable that the foreign vendors -most of them reputed defence companies which operate worldwide- would purposely default on contractual obligations, be happy to have their reputation sullied and be penalised, and not mind facing the prospect of being blacklisted.

Such prejudicial views are not conducive to building mutual trust and understanding between the vendors and MoD which is essential for smooth execution of the offset contracts, or any other contract for that matter.

In theory, vendors have the freedom to choose the avenues for discharging the offset obligations, select Indian Offset Partners (IOPs) and change them midway, fix and rephrase the offset implementation schedule, etc. But, in practice, this freedom is not unfettered as the vendors require MoD's approval at every stage starting with the submission of the offset proposal. Lack of mutual trust lies at the heart of these excessive controls.

Considering that the offset guidelines clearly state which Indian companies qualify as IOPs, which avenues are available to the vendors to discharge their offset obligation, which products qualify for offset credits, etc., there is no need for this excessive control which impacts smooth execution of the offset contracts. Some of these controls, especially those related to changing the IOPs, avenues for discharging offsets, and the yearly schedule for execution of the contract, need to be done away with.

An objective analysis of the offset contracts, especially the circumstances in which so many vendors have defaulted on the contractual obligations may throw up other ideas for preventing defaults in future. That said, there is a strong case for considering revocation of the offset policy.

Earlier, all foreign contracts exceeding Rs 300 crore entailed offset obligation. This threshold was raised to Rs 2,000 crore in 2016, which reduced the number of contracts entailing offset obligation. This number would come down further with all ab initio single source procurements from abroad now being exempted from offsets and the growing emphasis on procurement only from the Indian sources.

Meanwhile, the problems faced, or likely to be faced, by the vendors in implementing the ongoing contracts need special attention. Rather than focussing on imposition of penalties for default, which is counterproductive, MoD should either resolve the problems that are holding up execution of the contract or take some ad hoc steps to bring a closure to these troubled contracts. The need for an honourable exit policy has acquired urgency as some vendors are believed to have thrown up their hands and announced that they are not able to execute the contract.

Some analysts have suggested setting up of a problem-cum-dispute resolution mechanism to offer a way out to the vendors who are facing difficulties in discharging the offset obligation. Conceptually, this is a good idea, but it is difficult to visualise how such a mechanism helps, especially in view of the understandable disinclination of the bureaucracy to give any concession, or show any accommodation, to the vendors which could later be questioned by the vigilance and audit agencies. https://www.financialexpress.com/defence/the-defence-offset-quagmire/2517158/

3. Central univ imposes fine on KPMG, partner now acting V-C *(indianexpress.com)* Updated: May 10, 2022

A partner with KPMG, the project management agency facing Rs 1.18 crore in penalties imposed by Rajiv Gandhi National Aviation University (RGNAU), a Central university under the Ministry of Civil Aviation, for absenteeism and delay of work, was appointed acting Vice Chancellor of the university – and two years on, the fine is yet to be recovered from KPMG.

In September 2019, KPMG partner Amber Dubey was inducted into the Ministry of Civil Aviation (MoCA) as Joint Secretary on a three-year contract under the parallel entry scheme. Two months later, he took charge as Acting V-C of RGNU. Since then, the recovery of Rs 69 lakh Central univ imposes fine on KPMG, partner now acting V-C in penalty and Rs 49 lakh as forfeiture of bank guarantee from KPMG has been hanging fire.

This was among a series of alleged irregularities flagged by the latest CAG report on the university submitted to the Ministry this January. It noted that the file for appointment of the KPMG as project management agency was "called for but not furnished to audit".

The report also highlighted delays in formulating recruitment rules for various cadres in RGNAU, no regular hiring even after rules were framed in August 2021, "compromise in transparency" in hiring manpower through outsourcing agencies and "undue favour" in direct appointment of consultants under Dubey's watch.

Asked about these allegations and the potential conflict of interest regarding KPMG's non-payment of penalties, Dubey told The Indian Express: "The allegations are baseless and the matter is sub-judice. We politely decline any comment."

That "sub-judice"refers to a case filed by RGNAU registrar Jitendra Singh who was sacked in January 2020 in what Allahabad High Court subsequently called "punitive and stigmatic orders". Following this, Singh was reinstated on December 31, 2021, only to be suspended the same day. This February, the Allahabad HC issued a notice to Dubey under the Contempt of Courts Rules Act, 1971.

Incidentally, as RGNAU registrar, it was Singh who chaired the Contract Monitoring Committee (CMC) that imposed the penalty on KPMG in 2019.

KPMG's association with the university goes way back. In 2013, the government decided to set up RGNAU land available with IRGUA in Raebareli. KPMG was hired as the project management agency in August 2016 for Rs 4.89 crore. The first phase of establishment was to be completed by 2019.

In September 2017, KPMG furnished the mandatory performance bank guarantee after 11 months instead of within two weeks and after a payment of Rs 1.96 crore was already issued by the RGNAU. In October 2021, a CAG report described this as “highly irregular”.

In January 2019, the CMC of RGNAU fined KPMG Rs 20.09 lakh due to absenteeism and Rs 48.99 lakh for delay in work.

In March 2019, records show, it was Amber Dubey himself who told the CMC that KPMG representatives had met various officers in the MoCA and claimed they were willing to take “a lenient view” on the issue of delay.

The CMC asked him to get that in writing, reiterated its decision to recover Rs 69.08 lakh from KPMG, and recommended a performance review after completion of the pending tasks to decide whether to forfeit KPMG’s performance bank guarantee — another Rs 48.99 lakh.

In July 2019, RGNAU again rejected KPMG’s request for taking a lenient view of the delay. Dubey joined the MoCA as joint secretary in September 2019 and was allotted RGNAU in the ministry’s work allocation.

In November 2019, RGNAU’s vice chancellor Air Vice-Marshal (Retd) Nalin Tandon resigned citing personal reasons, and Dubey took over as the Acting Vice Chancellor.

The Secretary, MoCA, did not respond to multiple emails and phone calls. https://indianexpress.com/article/india/central-univ-fines-kpmg-partner-now-acting-v-c-7909002/

4. ग्रामीण भारत में कैसे ले जल संकट की थाह? *(hindi.news18.com)* May 10, 2022

जल-संकट और इस बारे में चर्चा का दौर प्रतिवर्ष अप्रैल से शुरु होता है और 15 जून के आसपास दम तोड़ देता है. जाहिर है जल-संकट एक बार फिर से मौसमी मुद्दा है. हालांकि, यही अवसर होते हैं, जब हम सभी तक स्वच्छ जल के अधिकार के लिए पैरवी कर सकते हैं. कई राज्यों ने पिछले कई वर्षों में इतनी भीषण गर्मी नहीं देखी है, तथ्य पुष्टि कर रहे हैं कि पिछले दो महीनों में बढ़ते तापमान ने जल-संग्रहण में 27 प्रतिशत की कमी कर दी है.

बता दें कि लगातार बढ़ता तापमान स्वाभाविक रूप से पानी के उपयोग और पानी के वाष्पीकरण के कारण पानी के भंडारण में कमी को प्रभावित करता है. इस लिहाज से पिछले दो महीनों के दौरान बांध में पा

नी का भंडारण आम तौर पर प्रति माह पांच से सात प्रतिशत तक कम हो जाता है. लेकिन, इसी के साथ यह बात गौर करें कि इस वर्ष यह कमी तीन गुना तक बढ़ गई है.

हालांकि, पानी की खपत में वृद्धि का एक कारण भीषण गर्मी है, वहीं हर वर्ष की तरह इस वर्ष की सुर्खियां बता रही हैं कि देश के कई हिस्सों में हर किसी के पास पानी सही मात्रा उपलब्ध नहीं हो पाता है. मूल रूप से, पानी के उपयोग के मामले में. प्रश्न है कि जल-
संकट के नये आयाम पर ध्यान देते हुए क्या हम इस संकट हो हल नहीं तो कम कर सकते हैं?

गांव और शहर में समान क्यों नहीं खपत की मात्रा?

इस प्रश्न का उत्तर जब हम ढूंढते हैं तो हमारे मन में एक अन्य प्रश्न आना चाहिए. यह प्रश्न है कि देश में जल-
संकट से जुड़ी सबसे अधिक तस्वीरें किसी क्षेत्र और तबके से आती हैं. दूसरा, प्रशासन के स्तर पर शहरी और ग्रामीण क्षेत्रों के बीच पानी की आवश्यकता तथा खपत के बीच कितना अंतर किया है. यहां कई राज्यों में नीतिगत स्तर पर देखें यह स्पष्ट होता है कि गांव के मुकाबले शहरी क्षेत्र को अधिक पानी दिया जा रहा है, जबकि इसका कारण स्पष्ट नहीं किया गया है.

उदाहरण के लिए, महाराष्ट्र राज्य के शहरी क्षेत्रों में प्रति व्यक्ति प्रतिदिन 150 लीटर पानी की उम्मीद करते हुए ग्रामीण क्षेत्रों में यह दर 135 लीटर रखी गई है. खबरें बता रही हैं कि गांव में इतना पानी भी सभी को नहीं मिलता है. दूसरा कि गांवों में कृषि और पशुधन के लिए पानी का प्रश्न मानव उपभोग से ज्यादा गंभीर होता जा रहा है, इसलिए राज्यों की नीतियों को लेकर एक बार फिर से समीक्षा की जानी चाहिए.

जल-
संकट के इस आयाम को महाराष्ट्र के उदाहरण से समझें तो पिछले दो महीनों में मराठवाड़ा, विदर्भ, कोंकण और उत्तरी महाराष्ट्र में तीन से चार बार लू चली हैं. राज्य भर में अधिकतम तापमान औसत से ऊपर रहा है. पिछले साल अच्छी बारिश और 15 महीने लगातार बारिश के कारण राज्य के बांधों में पर्याप्त जल-
भंडार है, मगर फिर ऐसी क्या वजह है कि जल-
संकट की चर्चा यह फिर जोरो पर है. ऐसा इसलिए है क्योंकि राज्य अपने जल-
भंडार से महज 44 प्रतिशत की ही जलापूर्ति कर सकता है, जबकि गर्मियों का मौसम दो महीने तो होता ही है, 15 जून में अभी एक महीने का समय और है.

पानी ट्रेन के बाद क्या है स्थिति?

हालांकि, मौसम विभाग ने इस साल अच्छी बारिश की भविष्यवाणी की है, लेकिन पिछले कुछ सालों का अनुभव जून में अच्छी बारिश की गारंटी नहीं देता है. इसके अलावा, अप्रैल में प्री-
मानसून बारिश न होने के कारण पानी की उपलब्धता में कोई मामूली वृद्धि नहीं हुई है. पिछले दो महीने में राज्य के सबसे ज्यादा जल संग्रहण में कमी पुणे संभाग में कमी आई है. यहां जल-
संग्रहण का अनुपात 38 प्रतिशत रहा. यह अनुपात नासिक संभाग में 24 प्रतिशत, जबकि मराठवाड़ा में 21 प्रतिशत रहा.

महाराष्ट्र तो उदाहरण है, पर यह सिर्फ एक राज्य तक लागू नहीं है, देश कई राज्यों में भी मानसून की शुरुआत और पानी की पर्याप्त आपूर्ति तक पानी की चिंता बनी रहेगी. भारत गांव में बसता है और पेयजल, कृ

षि के लिए पानी और उद्योग के लिए पानी के प्राथमिकता क्रम में पर्याप्त पानी नहीं मिलने से अब सभी प क्षों का असमंजस में पड़ना स्वाभाविक है.

सात साल पहले मिरज से लातूर तक पानी की ट्रेन से चली तो इस खबर को बड़ी प्रमुखता मिली. लेकिन, उसके बाद जो हुआ वह स्थायी जल आपूर्ति योजना के बारे में कोई नहीं बताता. देखा जाए तो पिछले कई दशकों में जल-
उपयोग योजना पर गंभीरता से विचार नहीं किया गया है, लेकिन बदलते हुए मौसम और परिस्थितियों में ग्रा मीण भारत को लेकर विचार किया जाना चाहिए.

खेती के पैटर्न से बढ़ रही सिंचाई की समस्या

जल-
संकट के अनुभवों को यदि एक राज्य पर केंद्रित करते हुए देखें तो कृषि लागत और मूल्य आयोग की एक रिपोर्ट का हवाला दिया जा सकता है. इस रिपोर्ट के मुताबिक, महाराष्ट्र में गन्ने की खेती राज्य के कुल फ सल क्षेत्र के चार प्रतिशत से भी कम है. लेकिन, इस बहुत छोटे से क्षेत्र के लिए सिंचाई के लिए उपलब्ध कु ल पानी का 70 प्रतिशत उपयोग किया जाता है.

लेकिन, देश के दूसरे अंचलों में भी पानी पीने वाले अधिकांश गन्ना या अन्य इसी तरह की अधिक पानी मांग ने वाली फसल उत्पादक क्षेत्रों में भी इस बारे में गंभीरता से विचार नहीं किया गया है. इस भयावह हकीक त को इस आंकड़े से समझा जा सकता है कि प्रदेश में शक्कर मिलों तक करीब 40 लाख टन गन्ना पहुंच ता है. वहीं, इस वर्ष प्रदेश में 12 लाख 32 हजार हेक्टेयर में गन्ने की बुवाई की गई है.

अब इसे यहां से देखें, जिन जिलों में अधिक सूखा पड़ता है, वहीं चीनी के अधिक कारखाने हैं. उदाहरण के लिए, सोलापुर जैसे सूखाग्रस्त जिले में भी चीनी के कारखाने अधिक हैं. आंकड़े बताते हैं कि कैसे जल नि योजन विफल हो गया है. वर्ष 2012-
13 को सोलापुर जिले में आया सूखा वर्ष 1972 की तुलना से कहीं अधिक भयंकर था, तब 28 चीनी मिलों ने 126.25 लाख टन गन्ने की पेराई की थी.

उस वर्ष सोलापुर जिले में 200 पशु-
शिविर थे और लगभग 150 गांवों पूरी तरह से टैंकर के पानी पर निर्भर थे. महाराष्ट्र जल एवं सिंचाई आयोग ने बारिश को देखते हुए सोलापुर जैसे कमी वाले इलाकों में गन्ने की खेती पर रोक लगाने के स्पष्ट निर्देश दिए हैं. हालांकि,
2005 के बाद से सोलापुर जिले में गन्ने के रकबे में 160 प्रतिशत की वृद्धि हुई है. पिछले दो महीनों में सो लापुर को पानी की आपूर्ति करने वाले उजानी बांध का पानी जिस दर से कम हुआ है, वह चौंकाने वाला है . कमोबेश यही स्थिति राज्य और देश के तमाम क्षेत्रों में है.

कैग ने यह भी सवाल किया है कि जब पानी उपलब्ध नहीं है तो चीनी आयोग नई चीनी मिलों को कैसे अ नुमति देता है. वर्ष 1982-
83 में महाराष्ट्र में चीनी मिलों की संख्या 78 थी. यह पिछले 40 वर्षों में 190 से अधिक हो गई हैं. हालांकि, राज्य सरकार ने वर्ष 2017 में गन्ने की खेती के लिए ड्रिप सिंचाई प्रणाली को अनिवार्य कर दिया है. लेकिन, क्रियान्वयन को लेकर गंभीरता की मांग है.

वहीं, एक प्रश्न है कि बांध में कितना पानी जमा है, इसका अंदाजा कई दशकों के बाद भी एक जैसा कैसे रह सकता है? वजह यह है कि बांधों में गाद जमा होती रहती है, जिससे जल-भंडार कम हो जाते हैं. वहीं, जलवायु-परिवर्तन के कारण निकट भविष्य में जल-संकट और अधिक गहराने की आशंका बढ़ी है. लिहाजा, जल के खपत और कृषि पैटर्न को ध्यान में रखते हुए नीतिगत परिवर्तन समय की मांग है. https://hindi.news18.com/blogs/shirish-khare/water-crisis-in-india-how-to-fathom-the-water-crisis-in-rural-india-4244702.html

SELECTED NEWS ITEMS/ARTICLES FOR READING

5. Walking the tightrope *(millenniumpost.in)* May 09, 2022

India has a 'partial' privatisation framework requiring a balance between demands of a fast-growing economy and the socialistic goals envisaged in the Constitution

Sale of Air India — the loss-making state-owned aviation company — to Tatas last year and the opening of IPO of LIC's 2-crore equity shares (16.20 crores shares in the pipeline) this month, surely speaks for the success of ongoing privatisation drive by the Central government. The decision to privatise or close down most of the PSUs, barring four strategic sectors, shows that the agenda has acquired high priority and will be pursued with renewed vigour in the years to come.

The philosophy behind the Indian privatisation programme is to ensure better performance of PSUs, encourage competition, and unlock the potential to create wealth through aggressive disinvestment, which will have a multiplier effect on other sectors of the economy. Unlike the Western, Russian or Chinese models that alienate ownership totally in favour of private ownership, the Indian model retains majority shareholdings (at least 51 per cent), with the government. The modus operandi of privatisation in India includes listing of CPSEs to facilitate people's ownership, strategic disinvestment, buyback of shares by large PSUs, merger and acquisition of PSUs in the same sector, launch of exchange traded funds (ETFs), monetisation of select assets etc

The Indian story of privatisation is quite recent and the progress is tardy in comparison to many developing countries in South-East Asia, Latin America, Central and Eastern Europe that have successfully completed privatisation long ago between the 70s and the 90s. In India, it is, though not in infancy but still in a nascent stage of trial-and-error. It was only between 1999 and 2004 that the government, for the first time, disinvested in 11 PSUs including BALCO, Hindustan Zinc and Paradeep Phosphates. Incidentally, I happened to be the District Magistrate of Korba in 2001 — the year when first ever privatisation of a PSU, BALCO, took place. Implementing the decision wasn't easy on the ground as it triggered massive social and political unrest across the state on the grounds of alleged arbitrariness and under-pricing in selling away a profit-making PSU in a tribal belt. The important questions are: Whether the model of privatisation is tailor made for India's socioeconomic conditions? What regulatory institutions exist to ensure performance? To what extent public good is secured and what safeguards are in place to prevent precious assets and huge businesses of PSUs from slipping into the hands of 'oligarchs' and business families as it happened in other countries? These issues need dispassionate consideration.

As per the Economic survey 2021-22, the 11 CPSEs that underwent strategic disinvestment between 1999 and 2004 have performed better vis a vis their peers after privatisation in terms of net worth (from Rs 700 crores to Rs 2,992 crores), net profit (from Rs 100 crores to Rs 555 crores), gross revenue (from Rs 1,560 crores to Rs 4,653 crore), Return on Assets (ROA) (from -1.04 to 2.27) and growth rate of sales (from 14.7 per cent to 22.3 per cent). There is no doubt that the figures vouch for better performance of PSUs after privatisation, but these don't necessarily serve as testimony for success in a comprehensive sense. For example, the data doesn't explain the 'distribution effects' which is an acid test for successful privatisation in terms of fiscal benefits, prices and access, employment generation and widening of ownership. According to Thomas Piketty (Capital in the Twenty-First Century), undervaluation of state assets leads to a net redistribution of assets from state to private hands as it happened in Britain and other Western European countries between 1970 and 2010. Telecommunication privatisation in Mexico and the huge amount of wealth accumulated by Carlos Slim (USD 47 billion in 2016) are examples. Similarly, a study by Chong and Lopez-de-Silanes (2002), based on a survey of 84 countries between 1982 and 2000, revealed that employment fell by 84 per cent, leading to worsening income distribution. A study by Davis et al (2000) on 18 developing and transition countries says that fiscal effects of privatisation amounted to just one per cent of GDP.

According to Saul Estrin and Adeline Pelletier — scholars at London School of Economics and Goldsmiths College, University of London, respectively — a number of factors influence the success of privatisation. These include: nature of firms, design of privatisation (total or partial), regulatory framework, characteristics of new owners and effective competition. It was observed that generally, performance improves after privatisation in certain sectors but not as a rule, especially with regard to developing economies. Moreover, it is not simply the ownership and management that influence performance but also factors like business cycle and effects of deregulation — which equally play an important role. In the UK, studies by researchers (Saal and Parker, 2000, 2001; and Newbery and Pollitt, 1997) show that except electricity, water and sewerage, other sectors had shown no improvement in pricing or service even after privatisation. The takeaway is that privatisation is not a panacea. Even private management, in many sectors, failed and the companies have wound up; Kingfisher Airlines and Jet airways are some latest examples. Most important guidelines in privatisation are 'accountability' and 'protection of public interest' since we do not want privatisation to end up as a glorified shield for "laissez-faire". The two are possible only when competition exists and regulatory mechanisms ensure accountability.

In the Indian context, privatisation is a tight rope walk as we need to strike a balance between state's ownership over means of production in accordance with socialist goals of the Constitution and the demands of a fast-growing liberalised economy. Internationally, privatisation has been a success where PSUs were completely handed over to private owners, but the Indian model generally retains 51 per cent stocks with the government. It is a predicament because, as found out by many studies, it's difficult to guarantee performance or efficiency in a 'partial privatisation'. For instance, stock values of privatised PSUs struggle in the markets as public sector culture still dominates, defeating the very purpose of privatisation. For successful privatisation, the prerequisites, inter alia, are: an effective regulatory and institutional framework, a well-functioning capital market and, a streamlined mechanism for protection of consumers' and employees' rights. In India, as of now, no proper regulatory bodies exist to monitor the performance of privatised PSUs.

Rather than being a handy recourse in the short run to fill the 'deficit' or to raise funds for government schemes, privatisation needs to be pursued as a long-term vision to reinvigorate the age-old mixed economy. Models need to be tailor made in tune with macroeconomic conditions and local circumstances. Privatising profit-making PSUs is easier but it closes sources of revenues for the government permanently. Loss-making units with huge assets need to be pushed first because they fail to attract buyers. Instead of privatising the best-performing seven Maharatnas — Indian Oil, Coal India, BHEL, GAIL, NTPC, ONGC and SAIL — it would be prudent to privatise some of the 17 Navratnas and 73 Miniratnas whose performance is a cause of worry.

Finally, the push for privatisation shouldn't lead to the death of the public sector. We need to rejuvenate it because firstly, there is a huge social cause involved and, secondly, the rise of capitalist forces and oligarchs will have unpleasant repercussions on the political economy. There are around 240 PSUs in India, with massive assets worth 20 per cent of GDP, engaged in the manufacturing, mining and services sector. Reforms aimed at job security, autonomy, participation in decision-making are necessary in the public sector in order to motivate the employees, management and all the concerned stakeholders. 'Minimum government' is good for privatised PSUs but the public sector needs 'maximum governance'. http://www.millenniumpost.in/opinion/walking-the-tightrope-477365?infinitescroll=1

6. The reasons behind the slow disinvestment pace *(livemint.com)* Updated: 10 May 2022

The government aims to earn ₹65,000 crore through the sale of its stakes in various central public sector enterprises (CPSEs) in FY23. However, privatization is still on the slow track. Mint examines the reasons:

What is the Centre's disinvestment plan?
Under its Public Sector Enterprise (PSE) policy, the government plans to open all public sector units (PSUs) for private investment, fully exit sectors it considers nonstrategic, and keep at least one PSU in sectors it considers strategic. Several profit-making enterprises including Bharat Petroleum Corp. of India (BPCL), Shipping Corp. of India, HLL Ltd, BEML Ltd, Projects & Development India Ltd, Ferro Scrap Nigam Ltd are in line for privatization. The government also sells equity through initial public offerings (IPOs), follow-on public offerings (FPOs), or offer for sale of listed entities.

What is responsible for these delays?
The covid-19 pandemic posed several hurdles to the government's disinvestment plans. Strategic sales stalled over FY21 and FY22 when India saw three waves of the pandemic, largely because potential investors were unable to physically inspect the assets, conduct due diligence and submit bids. Disinvestment has also faced opposition from employees fearful of job losses. Several state governments have opposed privatization as well. State governments and state or central-owned entities have been barred from bidding for these PSEs, but they have frequently sought to bid for them.

Asset sales

How long could it take for the plan to pick up pace?
With covid-19 cases declining, some of the stalled strategic sales have made progress. In some cases, the Centre had to sweeten the deal. While offering better terms to potential investors

adds a couple of quarters to the timeline of the asset sale process, resolving states' concerns and other issues such as demerger of non-core assets can also take some months.

How important is disinvestment?
Disinvestment is a strategy for the government to reduce its fiscal burden and raise money to meet the needs of investments towards creating value for the public, which can be in the form of creating infrastructure or towards welfare schemes. Disinvestment is also seen as a way to unlock the value of under-performing assets. Thus, through the privatization of some PSEs, the Centre can seek private sector investments to turn around loss-making or under-performing units. This, in turn, helps in creating further employment creation.

What if the Centre misses the targets?
The government has rarely met targets set for disinvestment over the past several years, putting pressure on the government's plans to balance out the fiscal deficit. For the pandemic-hit fiscal years—FY21 and FY22—the government fell far behind achieving its targets with ₹32,845 crore achieved in FY21 against target of ₹2.1 trillion, and ₹13,530 crore achieved against a target of ₹1.75 trillion, which was later revised downwards to ₹78,000 crore. For FY23, it has rationalized the disinvestment target to ₹65,000 crore. https://www.livemint.com/economy/disinvestment-why-govt-plans-are-moving-slow-11652118882326.html

7. Privatizing a strategic asset like SCI makes little sense *(livemint.com)* May 10, 2022

With 59 vessels totalling 531,1211 DWT, SCI is by far India's largest merchant cargo carrier

The latest delay in the privatization of India's sole state-owned merchant shipping company, the Shipping Corporation of India (SCI), offers a chance for the Centre to rethink the privatization of this strategically critical national asset.

While there is a good case for the exit of government from business in general and the privatization of most state-owned enterprises in particular, SCI has to be viewed through a different lens – that of national security.

Nothing underscores this more than the travails faced by Russia in attempting to circumvent Western sanctions and keeping its international trade going. Logistics operations have come to a near halt, with major operators either stopping services or severely restricting them. Estimates put the reduction in freight cargo transported by road from Russia at more than a million tonnes per quarter. At Frankfurt, Europe's busiest air cargo hub, the 20 flights a week operated by Russian heavy cargo planes have stopped.

But by far the biggest impact has been felt by shipping, with the major Western container and general cargo suppliers having stopped services to Russia. By this time, this should have led to a situation of nothing moving in or out of Russia. That it hasn't is because of two factors: One, Russia has a fairly strong merchant fleet of its own; and two, China, the world's fastest-growing merchant shipping power over the past decade, has stepped into the breach to bail Russia out.

The fact that Russia has a strong local merchant fleet has helped. According to UNCTAD data, the Russian Federation had 1,786 ships, accounting for about 1.3% of the world's marine cargo capacity. However, before the war broke out, only 322 of these were 'foreign flagged' – that is, owned by Russian entities but operated under the registry of other countries. Post sanctions, this has forced a record number of “flag switches" by Russian ships. According to some industry monitoring websites, flag switches have entered double digits since March – more than thrice the long-term monthly average. Apart from this, Russian ships have been forced to switch off identification and location transmitters, as well painting over vessel names and IMO numbers on the hull to try and prevent identification as Russian.

While these are violations of international maritime laws, as sanctions specifically bar other activities like ship-to-ship transfers of cargo, the fact is that these actions have helped to keep Russia’s economy from coming to a complete halt, despite the fact that 90% of the world’s trade is carried on the sea.

These have happened only because Russia not only has owned vessels but has the support of China in carrying out its trade by sea. China’s merchant fleet has more than doubled in size over the past decade. With 7,318 ships under the Chinese flag in 2021 and a further 1,764 registered in Hong Kong, China is de facto the world’s biggest merchant marine power, with a total tonnage capacity of 348 million DWT, only marginally behind world leader Greece’s 373 million DWT, but most of Greece’s fleet is foreign-owned, operating under its flag of convenience.

In the case of a conflict – either involving India directly or in the Indian Ocean region – will leave India with few such options. While 98% of India’s trade by volume and 68% of trade by value is carried by sea, most of this is money paid to foreign operators – India ranks 19th in merchant fleet strength in the world rankings, with about 1% of global capacity in tonnage but these numbers hide more than they reveal. More than a third of the total (and a much higher percentage in critical cargo areas like crude, LPG and natural gas carriage) is under foreign flags. The existing Indian fleet is also aging, with the average age increasing from 15 years in 1999 to 19.71 years as of October 1, 2019, according to the Economic Survey for 2019-20, with more than half the fleet over 16 years old.

This is where SCI becomes critical to India’s maritime security interests, as well as central to its ‘blue economy’ policy. With 59 vessels totalling 531,1211 DWT, it is by far India’s largest merchant cargo carrier. It also owns critical infrastructure like very large crude carriers, petroleum product and gas carriers. What’s more, SCI mans and operates offshore supply vessels for ONGC, maritime survey vessels, deep-sea exploration vessels and even dredgers that keep our ports operations. A privatized SCI may pull out of these niche markets.

It is not as if privatizing SCI will allow unfettered growth of the shipping sector in India. The fact that the two largest private Indian shippers – Essar and Great Eastern – do not have a combined fleet strength that matches SCI. Despite policy changes that give preference to Indian-owned ships for Indian freight, the fact remains that constrained shipbuilding capacity – China, South Korea and Japan together account for 85% of the world’s shipbuilding market – and lack of financing options have meant that even Indian shipping companies have increasingly opted for foreign flag operations.

Until such time as India can sort out its long-term structural issues related to shipping – building shipyard capacity and developing domestic financing and insurance capacity – privatizing a strategic asset like SCI makes little sense. https://www.livemint.com/opinion/online-views/privatizing-a-strategic-asset-like-sci-makes-little-sense-11652125786276.html

8. IPO and after *(thehindubusinessline.com)* May 09, 2022

LIC's big challenges have just begun with its successful IPO

The Centre must be relieved that its offer for sale of shares in Life Insurance Corporation (LIC) to raise over ₹21,000 crore for the disinvestment kitty has successfully concluded, despite hostile market conditions due to geopolitical tensions, Fed tapering and a rate hike by the Reserve Bank of India. It is essentially LIC's policyholders and employees apart from domestic institutions and retail investors, who have helped India's largest IPO sail through, even as foreign investors were tepid in their response. But the real challenge begins now for LIC and its promoter, the government. Till date, LIC has had to meet a rather low bar on its financial performance and investment returns, thanks to being a wholly government-owned entity with un-demanding policyholders. But with a new set of stakeholders — public shareholders — now entering the picture, LIC will need to prove itself as a commercially-run entity that delivers on both policyholder and shareholder returns.

There are three areas on which LIC's progress will be keenly watched. The first is whether it is able to arrest the significant loss of market share in its individual business to private players. Though LIC has fared reasonably well on growth metrics in the last five years with 13-14 per cent growth, it has lost market share from over 60 per cent of individual business in FY16 to below 45 per cent in the first nine months of FY22. To reverse this, LIC needs to revamp its rather dated product menu and scale up presence in the digital and bancassurance channels that bring in millennials and affluent investors. Two, having distributed 95 per cent of its surpluses so far to policyholders, LIC has focused very little on its own profit margins. LIC's value of new business margin (VNB margin) is currently just 9.3 per cent, compared to 22-27 per cent for leading private players. The key to higher margins lies in LIC's ability to defocus from endowment products which use bonuses to lure investors, to pure protection and pension products that deliver better value both to policyholders and the insurer. Third and most important, LIC enjoys a huge advantage over private players on the ₹40 lakh crore float that its policyholders have entrusted with it. But many of its investment moves are seen to serve its promoter's rather than policyholders' interests — whether it is the bailout of troubled banks, subscribing to PSU disinvestment offers or lending to the Railways. If LIC's conversion into a Board-managed entity is to carry credibility, it will have to stay off non-commercially driven decisions, and the Centre has to co-operate with LIC on this.

Managing the above transformation may be tricky but that's what will help LIC cut its apron strings with the government and raise capital for its future growth needs from public markets. The reception to the Centre's big disinvestment offers in future will also hinge on LIC's ability to create stock market value for its newly minted public shareholders. https://www.thehindubusinessline.com/opinion/editorial/lics-big-challenges-have-just-begun-with-its-successful-ipo/article65398704.ece

9. India's defence expenditure: inferences from SIPRI factsheet *(timesofindia.indiatimes.com)* May 10, 2022

We are often brainwashed about India's defence expenditure not being sufficient towards its force modernisation requirements and great power aspirations. This one-sided story has rather metamorphosed into 'established wisdom', leading to recurrent demands for larger defence budget allocations. However, doubting Thomases and pessimists are advised to read SIPRI's recent factsheet on 'trends in world military expenditure, 2021' that has once again ranked India as the third highest military spender in 2021. Hitherto, there are many other indicators within and outside the SIPRI factsheet that establish public policy benevolence about India's resource allocation in the defence sector.

India's high ranking in the SIPRI pecking order of defence expenditure is creditable since the same comes at a time when the global economy is sluggish due to pandemic effect. Even then, some statistical counts in the SIPRI factsheet deserve mention. First, while global defence spending in 2021 increased by 0.7 per cent over the 2020 figures, it was 0.9 per cent in case of India. One may brush aside such marginal increases as 'insignificant' but then countries like the US and Germany had a negative growth of 1.4 per cent. It is only now that the defence expenditure is picking up pace in Europe due to NATO's commitment to increase defence expenditure to at least 2 per cent of national GDP and the ongoing Russia – Ukraine War. Second, the decadal growth increase between 2012-21 was 33 per cent for India. Among the top ten defence spenders, only China's defence expenditure was significant during this period, i.e. 72 per cent. Russia, a one-time military power, accounted for only 11 per cent decadal growth even though it earns huge amount of foreign exchange through lucrative arms sales all over the world! UK could manage only 3.7 per cent growth in last ten years. On the other hand, countries like the US had decadal defence expenditure decline by 6.1 per cent. Third, while the world military expenditure as a share of global GDP stood at 2.2 per cent in 2021 as against 2.3 per cent in 2020, India was spending 2.7 per cent of its GDP on defence. In the list of top ten defence spenders, only the US, Russia and Saudi Arabia spend larger share of their GDP on defence. The SIPRI list of 40 countries with the highest military expenditure in 2021 reveal that mostly autocratic countries or countries with genuine security issues with neighbours spend more than 3 per cent. Fourth, while the average defence spending as a share of government expenditure in 2021 remained same at 5.9 per cent of total government expenditure, India still stands comfortably ahead with defence expenditure tagged at almost 12 percent of Union Government expenditure. Budgetary constraints due to pandemic situation in last two years did not come in way of public policy commitment towards sustained commitment to defence priorities.

The SIPRI factsheet is not an eye opener since the trends are almost on predicted lines over the years and are rather known to all. In fact, the SIPRI rankings do not factor concurrent GDP positions where India stands at fifth position. Therefore, from all perspectives, India's commitment to its defence expenditure and force modernisation is beyond doubt. And yet, our defence budget experts do not take congnisance of objective facts and figures in making their assessments, prognosis and recommendations! The oft-quoted asymmetry of 1:4 with Chinese defence expenditure ignores many factors. First, China is a much bigger country with a continental size landmass and has border issues with numerous neighbours. It has a GDP that is almost five times bigger than India. It has been growing steadily at accelerated rate of development for last many decades. Second, China has an authoritarian regime with high level of militarisation of polity. The Chinese People's Liberation Army (PLA) is quite influential in decision making process and has been literally pampered since late nineties through double digit defence expenditure growth. Third, China has a history of following aggressive strategic culture against its weaker neighbours. Its military modernisation and the threat emanating from therein is funded through higher prioritisation for defence.

Given the perceptional gap between the SIPRI factsheet on the one hand and the 'established wisdom' amongst strategic experts in India about the so-called budgetary constraints, the focus of domestic national security discourse should be on optimisation of the available budgetary resources. In this context, the public policy initiative of reserving 64 per cent budgetary outlays of capital head in defence budget for domestically-allocated weapons is a significant and welcome step since this would facilitate the optimisation of allocated resources. Therefore, rather than cribbing about the so-called gap between India's defence expenditure with that of China's, we probably need many such steps that would save the precious penny as well as facilitate our defence modernisation goals. https://timesofindia.indiatimes.com/blogs/voices/indias-defence-expenditure-inferences-from-sipri-factsheet/

10. Don't reduce BSF from first-class border guarding force to third-class police force in states *(theprint.in)* 10 May, 2022

The 270,000-strong Border Security Force or BSF is the world's largest border guarding force, and the only one with its own air wing of 24 aircraft, 100-plus water vessels and motorised boats to protect the riverine boundaries, artillery section, horses, camels, and canine squads. Last year, its mandate and jurisdiction of powers of search, seizure and arrest with respect to the Passport Act and specified sections of the Criminal Procedure Code (CrPC) was rationalised to include 'the whole of the area comprised in the States of Manipur, Mizoram, Tripura, Nagaland and Meghalaya, the Union Territories of Jammu & Kashmir and Ladakh and so much of the area comprised within a belt of fifty kilometres in the States of Gujarat, Rajasthan, Punjab, West Bengal and Assam, running along the borders of India'.

This led to a major controversy with opposition-ruled states such as Punjab and West Bengal accusing the Narendra Modi government of curtailing the state's role in law and order, a subject under the ambit of the states as per the division of powers under the Constitution. The government of Punjab filed an original suit in the Supreme Court under Article 131. The affidavit stated: 'for a geographically compact state like Punjab, over eighty percent areas of the border districts and all major towns and cities, including most district headquarters of Punjab would be covered under BSF's jurisdiction'. The Punjab government pleaded that this could lead to 'jurisdictional, functional and legal confusion, including chaos and conflict in trial of offences between law enforcement agencies'. Incidentally, a similar move to extend the authority of the BSF across the country by the UPA government in 2011 was opposed by Modi who was then the chief minister of Gujarat.

Meanwhile, the Lok Sabha was informed in December 2021 that the 'extension in territorial jurisdiction of BSF in some states was aimed at empowering BSF to discharge its border guarding duties more effectively in the wake of use of technology like Dynamic Remotely Operated Navigation Equipment (Drones), Unmanned Aerial Vehicle (UAVs), etc generally having long range, by anti-national forces for surveillance as well as for smuggling of arms, narcotics and fake Indian currency notes (FICN), besides curbing the menace of cattle smuggling'.

Powers of BSF

Let us understand the background and the rationale of the BSF. After the Pakistani aggression in the Rann of Kutch in 1965, it was felt that the extant arrangement of state armed police forces guarding international borders was clearly inadequate. Writing under the pseudonym of 'Military Correspondent', then-Army chief Gen. J.N. Chaudhuri said in The Statesman, "Should the responsibility lie with the Police in the initial stages and if so at what stage should the Army take over? What equipment should these border forces have, how should they be organized and under whose control should they act? How should liaison be maintained between the Armed Forces proper and a border force? Should the border be a State or Central responsibility and how should the financial burden be shared? Police arrangements as constituted along the border at present seem confused and nobody seems to be quite sure."

Such thoughts in the highest echelons convinced Prime Minister Lal Bahadur Shastri of the need to establish a single armed force to reduce the multiplicity of paramilitary forces in border areas. The key bureaucrats and generals involved in the creation of a single central force, tasked with the protection of India's long problematic borders included then Home Secretary LP Singh, vice-chief Lt Gen. Kumaramangalam and IP officer K Rustomji. BSF was created by amalgamating 25 existing battalions from the state armed police forces of the border states and officers from Emergency Commissioned Officers (ECOs), a position instituted in the aftermath of the 1962 war.

In 1969, the BSF first got powers to arrest and search under the CrPC with respect to certain laws such as the Foreigners Act, the Passport Act, forex laws and Customs Act. Incidentally, it also has powers to arrest, search and seize under the NDPS Act, Arms Act and Customs Act, but its authority under these laws has not been changed with the current amendments, meaning that its powers will continue to be only up to 15 km inside the border in Punjab, Assam, and West Bengal, and as far as 80 km in Gujarat. The probable explanation is that offences under these laws can be taken up by the NIA, ED, and the Narcotics Bureau.

Beyond the mandate

Many BSF veterans feel that the new mandate will dilute the core competence of the force. According to them, 'border guarding is the forte of the BSF – it is not trained to carry out police functions.' So, exercise of extended powers may end up diluting the abilities of the BSF as a first-class border guarding force and convert it into a third-class police force. It has also been argued that collection of intelligence in an area as large as 50 km from the border in the densely populated states of Punjab, Assam and West Bengal is better coordinated by the state and central intelligence agencies and acted upon by the local police instead of the BSF, which will find its resources stretched thin. Last, but not least, the BSF does not have the power to file a charge sheet and undertake the prosecution function that can be done by a law enforcement agency only.

What is required, perhaps, is better coordination between all the agencies involved – the police, customs, narcotics bureau, enforcement directorate and of course the BSF, as well as the district administrations. These coordination meetings and the follow-ups have to be done on a professional basis, and it is unfortunate that political parties dub the agencies as being 'central' or 'state.' We must not forget that both draw their mandate from the Constitution of India, and the officers who helm these agencies are recruited and trained together as professionals. It is also imperative that political parties recognise that guarding our borders cannot be the subject of political grandstanding. https://theprint.in/opinion/dont-reduce-bsf-from-first-class-border-guarding-force-to-third-class-police-force-in-states/948730/

11. Powering up after the power crisis shock *(thehindu.com)* May 10, 2022

A lesson is that demand growth projections and supply arrangements need to become central to the regulatory process

The power crisis has taken us by surprise. The question in everyone's mind is: where did we go wrong? And who slipped up? Clearly, there was complacency as the power supply position was comfortable for some years; there was 'surplus' capacity. Then there were stranded coal- and gas-based power plants which had become non-performing assets. It was, however, not appreciated that electricity demand growth had been lower than expected, due to slower and less energy-intensive economic growth. The robust economic recovery after two waves of

COVID-19 and the unexpected heat wave have brought back power cuts. The Government is undertaking emergency measures such as cancelling passenger trains so as to be able to get the Indian Railways to transport more coal to power plants, and issuing directives to use more imported coal to tide over the supply shortfall.

Nature of consumer demand

Taking a holistic view of responsibilities in the supply chain would be helpful in avoiding such recurrences. Under the Electricity Act, it is the responsibility of the Distribution Licensee/Company (Discom) to provide reliable quality and round-the-clock electricity to all consumers to meet full demand. To do so, they enter into contracts with a number of generating companies in order to ensure adequate supply. These Discoms work under the oversight of the State Electricity Regulatory Commissions.

With higher incomes and the consequent increase in the use of air-conditioners and other electrical appliances, the nature of electricity demand is undergoing a qualitative transformation with rising daily and seasonal peaks, and spikes on very hot or cold days. This will only increase in the years ahead.

Towards reliable supply

While demand prediction is inherently uncertain, the questions to ask are whether Discoms have been making and updating their demand growth projections and scenarios over the medium term with adequate supply arrangements in a robust manner. And whether State Regulatory Commissions have been demanding these and scrutinising them transparently. This needs to become central to the regulatory process. Ensuring reliable supply to meet unanticipated peaks, as have occurred now, requires making supply arrangements with reserve margins that are adequate. These would be expensive just as backup private captive diesel generation is. The Regulatory Commissions need to provide for such expensive peaking power arrangements in the tariffs they approve. It is also time to move towards separate peaking power procurement contracts in addition to the present system of long-term thermal power contracts. Once things have settled, it would also be useful to see in a granular manner where generators have defaulted contractually in supplying power to Discoms, and where Coal India or the Indian Railways have been in default. There may be a case for tightening their contractual terms with enforceable financial penalties.

Further, a transition to demand-based time of day rates of electricity for generators as well as consumers would help. These should be brought in by the Regulatory Commissions. Peak demand moderation and flattening of the demand curve through a change in consumer behaviour is feasible with smart meters. But this would take place only with a strong price signal, a large differential in peak and off-peak rates. This differential needs to be so wide that large consumers find it worthwhile to put in sensors and timers, and use cheap electricity at around 3 a.m. to switch on geysers and washing machines, and to raise air conditioner temperature settings by 2°-3° Celsius in the afternoon on hot days when the electricity is expensive. A very high level of reliability has higher costs, contracts for unexpected peak demand. The requirement of backup power will keep rising as the share of uncertain renewable generation grows. Specific options need to be transparently evaluated and decisions taken. The consumer, the political class and the Regulatory Commissions have the collective responsibility for optimal decisions for reliable supply rather than the short-term comfort of minimal or no tariff increases resulting in the consequences that we are now witnessing.

Subsidies and politics

Free supply of electricity to farmers and households up to a specified level is not a problem as long as State governments pay for it as provided in the Act, and the Regulatory Commissions do not at the same time act from a political point of view and shy away from determining cost-reflective tariffs. The problem is the absence of meaningful political discussion on the relative benefits from subsidies in different areas and their affordability.

While the problem of delayed payments by Discoms is getting highlighted and needs to be resolved with a sense of urgency, the coal supply problem is not due to this. Coal India is not short of cash to be able to increase production. It should do so faster. Coal India needs to create capacities to rapidly ramp up production; and the Railways need to carry larger quantities of coal when demand surges, as has happened now. Extreme weather events will increase in intensity and frequency due to climate change. These capacity cushions have to be created at the earliest and paid for.

Some solutions

There is idle but expensive generating capacity available — about 15-20 GW of gas-based power plants which can run on imported liquefied natural gas, and 6 GW-8 GW of thermal plants which can run on imported coal. The exercise of the option of buying electricity from these plants and having no power cuts would provide immediate relief. But where an across-the-board increase in rates may not appear feasible, consumers who are willing to pay more could be kept free of power cuts with purchase and supply of more expensive electricity generated from imported coal and gas. This willingness could be conveyed through resident welfare/ industries associations. They could pay for this through a peak demand surcharge in their bills. The Regulatory Commission could undertake subsequent scrutiny to see that the surcharge has been computed correctly.

To improve reliability, Discoms, with the approval of the Regulatory Commissions, need to go in for bids for storage. It may even turn out to be the cheaper option in the short run to meet peaking power needs. Large-scale grid storage is in any case essential to achieve the goals for 2030 — of creating 500 GW of non-fossil fuel capacity including 450 GW of renewables. https://www.thehindu.com/opinion/lead/powering-up-after-the-power-crisis-shock/article65398514.ece

12. RBI report calls for complete deregulation of power tariffs *(financialexpress.com)* May 10, 2022

"Based on the experience gained so far from rationalisation of petroleum product subsidies, electricity pricing may also be completely deregulated. Levy of additional taxes/cess after deregulation must be eschewed as it could dilute the intended benefits of reforms," the RBI said in its Report on Currency and Finance 2021-22.

Flagging higher electricity tariffs for businesses in India than in export competitors, a Reserve Bank of India (RBI) report has called for a slew of measures, such as deregulation of electricity pricing, greater role of the private sector in transmission and distribution, more focus on renewable energy, and reducing 'deadweight loss' to bring down the cost of power.

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Electricity tariffs for businesses are higher in India than in Bangladesh, ASEAN economies, and China (see chart). “In this context, renewable energy can play a vital role and depress overall tariffs,” the RBI report said.

The government has taken several steps over the last two decades starting from the accelerated power development and reforms programme (APDRP) unveiled in 2001 to reform the electricity sector and move it towards market determined pricing, but the progress on this front has been tardy and uneven. In one of the later instances, the Ujwal Discom Assurance Yojana (UDAY) 2015 failed to achieve its target to bring down the discoms’ aggregate technical and commercial (AT&C) losses to 15% by FY19-end. Though there was some progress in the initial UDAY period, the AT&C losses have risen again post the scheme. These losses now stand at around 25%, compared with 6-7% in advanced economies.

India’s electricity sector is hamstrung by a complex cross-subsidisation scheme, under which high energy-consuming customers from industry and commercial sectors subsidise consumption in the agriculture and domestic sectors. Inadequate tariff revisions for households and agriculture, and delayed and inadequate release of subsidies by the state governments have also inflated the losses of discoms over the years, pushing them into a debt trap.

Rahul Raizada, executive director of PwC India, said, “In India, for those consumer categories where the cost to serve electricity is maximum, like agriculture, the tariffs are the lowest and vice versa. The industry is bearing the brunt, denting the competitiveness of the economy.” He, however, added that the situation can now be reversed as renewable energy, which has now become extremely competitive, can be utilised to power farm requirements. The KUSUM scheme serves this purpose, he said, adding that large uptake in KUSUM can help not only to serve electricity to farms during the daytime, but also reduce government subsidy and help correct the skewed tariff structure.

India has a high degree of reliance on imported energy. With renewable energy emerging as an economical alternative to conventional energy resources and the evolution of newer technologies in the transport sector, India’s imported energy dependence could shift to domestic sources in the long run, according to the RBI report. This, it said, could be promoted by rationalising investment in the energy infrastructure. Rupesh Sankhe, vice-president and power analyst at Elara Securities, said successful implementation of open access policy, more favourable solar rooftop policy, lower taxes on electricity at the state level, and a lower GST régime for electricity can be some of the steps to reduce the power cost for industrial and commercial consumers, in addition to rationalisation of cross-subsidy surcharges.

Historically, the emphasis has been more towards generation capacity visa-vis transmission and distribution.
“The focus however needs to gradually shift towards transmission and distribution, with higher participation by the private entities,” the RBI report said. Between FY16 and FY20, public sector investment in power generation was a whopping Rs 2.5 trillion, whereas investment in transmission was Rs 1.64 trillion and Rs 71,829 crore in distribution.

With no amount of government largesse or financial re-engineering salvaging the electricity discoms, the government, in Budget FY22, announced a Rs 3.1-trillion grant to them through sector-specific lenders PFC-REC. Under the scheme, 60% grant component would be converted to loans on the discoms’ books if they fail to meet various reform targets. Also, the Centre has linked a part of the additional borrowing windows for states in recent years to power sector reforms and has turned stricter in asking gencos to snap supplies to defaulting discoms. https://www.financialexpress.com/industry/rbi-report-calls-for-complete-deregulation-of-power-tariffs/2518199/

13. Coal India spends more than Rs 1,600 crore on CSR in last 3 years *(moneycontrol.com)* May 9, 2022

The mandated target for expenditure on CSR by Coal India (CIL) during the last three years was Rs 1,284 crore.

State-owned Coal India Ltd has spent more than Rs 1,600 crore on corporate social responsibility projects in the last three years, a company release said.

The mandated target for expenditure on CSR by Coal India (CIL) during the last three years was Rs 1,284 crore.

"During the last three years, CIL has spent more than Rs 1,600 crore on CSR activities," the PSU said in the release.

Also, during the trying times of COVID-19, CIL spent more than Rs 500 crore to help fight COVID-19 nationwide.

According to CIL Director (Personnel) Vinay Ranjan, the PSU is the third largest corporate spender on Corporate Social Responsibility (CSR) works in the country.

CIL has spent more 60 per cent of its CSR budget on health and sanitation sector and the company has provided employment skills to more than 10,000 youths.

To mitigate the potential shortage of oxygen during the COVID-19 pandemic, CIL set up or help set up 31 oxygen plants in 28 hospitals in various parts of the country during the last fiscal, according to the PSU.

Presently, CIL is operating its CSR activities in 34 districts across eight states of the country.

Coal India accounts for over 80 per cent of the domestic coal output. https://www.moneycontrol.com/news/business/coal-india-spends-more-than-rs-1600-crore-on-csr-in-last-3-years-8478361.html

14. Renewables are a long way from solving our energy needs *(newindianexpress.com)* May 10, 2022

The Centre has not been able to find a solution to this problem, forcing a parliamentary panel to ask the government to come out with a policy paper to resolve the issue.

The current power crisis the country is facing lays bare the ground realities of renewables and green energy initiatives. While the government has been boasting about adding more capacity—renewables' power generation capacity accounts for almost 40% with solar and wind making up 27.5% of the total—coal continues to be the backbone of the power sector accounting for more than 75% electricity generation in the country. It must be noted that coal-based plants account for only 51% of the total installed capacity of the country.

The recent power crisis due to coal shortage proves the country's dependence on the fossil fuel for its electricity needs, despite all the talk about green energy. Recently, India's biggest power generation company, NTPC, which had adopted a policy to add only green energy capacity, decided to expand its coal-fuelled power generation capacity for the first time in the past six years. Though solar and wind energy account for 27.5% of the installed capacity, their contribution to power generation remains low—around 10%.

The problem with renewables is that the state distribution companies (discoms) have shown their reluctance in signing long-term power purchasing agreements with the solar/wind firms as their tariffs kept falling. In many cases, discoms have refused to honour the agreements signed earlier at higher tariffs as rates keep coming down due to aggressive bidding by solar power companies. The Centre has not been able to find a solution to this problem, forcing a parliamentary panel to ask the government to come out with a policy paper to resolve the issue.

There are other technical reasons for the reluctance of discoms to go green at a larger scale—renewable energy (RE) forecasting is one of them. Sharp fluctuation in generation is an inherent problem with renewable sources, and discoms are yet to develop better RE forecasting capabilities to keep their operations efficient. Unless sustained and meaningful efforts are made towards resolving these issues, renewable energy sources would remain on the fringes and coal would continue to fulfil most of our power needs. https://www.newindianexpress.com/opinions/editorials/2022/may/10/renewables-area-long-way-from-solvingour-energy-needs-2451803.html

15. Delay, thy name is IBC: Insolvency framework is fast losing credibility, needs a booster dose *(financialexpress.com)* May 9, 2022

Recovery falling below even the liquidation value of assets admitted under the Insolvency and Bankruptcy Code (IBC) process shows why the IBC ecosystem desperately needs fixing. As this newspaper reported on Friday, the recovery ratio for creditors has hit a record low of just 10.2% of admitted claims in January-March 2022. This is the second consecutive quarter of disappointing numbers—realisations in October-December 2021 were just 13.4%. While it is true that IBC's performance shouldn't be assessed based on the data of a couple of quarters and the size of realisations shouldn't be the primary yardstick, the fact is that the overall realisations since the IBC came into effect are modest at 32.9%.

Bidders for banks' toxic assets are shrinking as the pandemic has beaten down potential buyers' appetite, but factors like a large chunk of "dead cases" from the Board for Industrial and Financial Reconstruction regime etc have contributed too. The delays and bottlenecks resolution cases face at the National Companies Law Tribunals (NCLTs) have worsened the situation. A shade over two-thirds of companies undergoing resolution, as per the Insolvency and Bankruptcy Board of India (IBBI), have exceeded the 270-day deadline set by the Code for resolution. The delays not only directly contribute to value erosion, they also deflate buyer enthusiasm over the IBC process. Take the example of Jaiprakash Associates. Although filed under IBC way back in September 2018, the case is yet to be admitted. Even Jaypee Infra, directed to the IBC by RBI, is yet to see resolution almost five years after it was taken to court. The timeline for admission was 14 days when IBC came into force.In many cases, the delays give the promoters enough time to divert funds and empty the company's coffers even as banks helplessly watch an asset losing its value. A large part of the problem is inadequate strength at the NCLTs. Against the sanctioned strength of 63 across 15 benches, a reply to an RTI query showed that there were just 22 judicial and 25 technical members. With a slew of retirements due this year, the IBC process is likely to get beset by further delays. There is also the problem of shorter tenures being granted to many members, and the reluctance of the government, in a few cases, to grant extensions even when these members were eligible for this.

It is not just the NCLT that is throwing a spanner in the works. Even the committees of creditors (CoCs) are not acquitting themselves well when it comes to speed. As former IBBI chairman MS Sahoo and CKG Nair pointed out in a recent column in this paper, commercially-wise CoCs should be able to identify firms for liquidation by the 30th day of the corporate insolvency resolution process (CIRP). But, 255 CIRPs that ended in liquidation in April-December 2021, took, on average, 615 days. Indeed, while a majority of the CIRPs that run the full course should have ended in rescue of the firms involved, 76% of those that ran the full course ended in liquidation. Clearly, value-erosion because of delays can't be the NCLT's fault alone. Given that in many cases, it was lending without due diligence that landed banks in the bad-assets soup, such delays seem unpardonable. To prevent any collusion between lenders and potential buyers, a code of conduct is needed.

The IBBI has proposed to make it obligatory for the CoC to share all the documents related to a stressed firm with the insolvency resolution professional. It has also mooted fixing deadlines for the preparation of the information memorandum and the completion of the valuation exercise. These, if implemented, would be important steps forward. The fact is IBC may end up in the same club as its predecessors in India's resolution history if the time delays at the NCLT level are not fixed. The credibility gap needs to fixed—immediately. https://www.financialexpress.com/opinion/delay-thy-name-is-ibc-insolvency-framework-is-fast-losing-credibility-needs-a-booster-dose/2516903/

16. Cryptocurrency conundrum! GST Council mulls imposing heavy tax: Report *(livemint.com)* Updated: 10 May 2022

In what could further spoil the mood of crypto investors in the country, the goods and services tax (GST) Council is likely to consider imposing 28 per cent tax on cryptocurrencies. The proposal is likely to be tabled in the next GST Council meeting.

According to reports the 28 per cent GST will be in addition to the 30 per cent income tax on earnings from crypto asset transactions.

The GST Council has constituted a committee which will soon take up the proposal to impose 28% GST on all a services related to cryptos, CNBC TV 18 reported.

Imposing 28 per cent GST on cryptocurrencies is another shocker for cryptocurrency community in India.

Ankur Gupta, Practice Leader (Indirect Tax), SW India said that looking at the taxability of cryptocurrency under Direct Tax introduced this year, it was just a matter of time that the taxability under GST also moves from 18% to 28%. Now when it has been made agenda for the next council meeting, it should sail through without any hindrance as well.

However, the imposition of 28% GST and 30% direct tax, would surely bleed out the majority of the profits which people have earned over a period of time when these cryptos are materialized, he added.

Amit Gupta, MD, SAG Infotech said as we all have been hearing for a long time, the government is reportedly considering levying a 28 per cent GST on all crypto transactions, including mining, sales and purchase of cryptocurrencies. There is already a 30 per cent tax being levied on profits made from the sale of crypto assets and NFTs.

“This second GST on crypto transactions is expected to further increase problems for the crypto industry and might even discourage many investors to trade in these digital assets," Gupta said.

“Levying GST or any other additional tax on crypto essentially puts off the initial original value of decentralisation of digital and financial assets. After the 30% tax already reinforced on crypto, introducing an additional tax shall simply be putting off interests of the investors in the assets. The crypto economy certainly is big now and needs regulations , however the fine line between balance and centralisation needs to be taken care of. The core technology I.e. blockchain behind creation and transaction of such assets itself can be made secure enough to bring in necessary regulations in the sector. Piling up something with layers of taxes should not be a solution to curb things. Somehow, an additional GST would certainly bring the spirit of centralisation more than it brings regulation to the crypto economy," said Chinka Gupta, CEO, ArcadeNetwork.

Kunal Jagdale, Founder, BitsAir Exchange said soon, a 28 percent GST on services and all cryptocurrency-related activities is proposed. It will be in addition to the 30% income tax on profits from cryptocurrency transactions. Following this initiative, the combination of the two taxes will make crypto currency provincially regulated in India, which is big plus for crypto investors.

He added that the imposition of a 28 percent GST on cryptocurrencies is not surprising given that many other items are subject to a 28 percent GST but it may discouraged a little bit to some users from engaging in cryptocurrency trading.

Meanwhile, the 30 per cent 'crypto tax' proposed in the Union Budget came into effect from April 1, 2022. From July 1, 2022, 1 per cent Tax Deducted at Source (TDS) will be applicable on crypto transactions. https://www.livemint.com/news/india/cryptocurrency-conundrum-gst-council-mulls-imposing-heavy-tax-report-11652153640169.html

17. Centre approves Rs 12,000 cr package for revamping power infra in J&K *(dailyexcelsior.com)* 10 May 2022

The Central Government has approved Rs 12,000 crore under Revamped Distribution Sector Scheme (RDSS) for Jammu and Kashmir to overhaul power infrastructure in both urban and rural areas to ensure regular electricity supply to the Union Territory.

“Under the scheme, Jammu and Kashmir divisions will get Rs 6000 crore each for improving power infrastructure for uninterrupted power supply, plugging pilferage and reducing Aggregate Technical and Commercial (AT&C) losses,” official sources told the Excelsior.

In turn, however, the Jammu and Kashmir Government has been asked to increase revenue generation to overcome losses it was suffering because of wide gap between funds incurred on power supply and revenue received from the people, industrial establishments, security installations etc.

Initially, according to sources, there was a proposal with the Central Government to provide Rs 8,000 crore worth package to Jammu and Kashmir under RDSS—Rs 4,000 cr each to two divisions but with the intervention of the UT Government and administration and support by

the Central leadership the amount was raised to Rs 12,000 crore—Rs 6,000 cr each for two divisions.
Out of Rs 12,000 crore worth package, Jammu and Kashmir divisions will get Rs 3,000 crore each immediately to start the works mentioned under the scheme while the rest amount will follow after expenditure to the satisfaction of the Central Government especially the Union Power Ministry.

The Power Development Department can utilize the package for improving infrastructure including installation of new transformers, electric poles, wires, Smart Meters etc.

"Focus in rural areas is on installation of electric poles where wires are hung on trees or wooden poles, new transformers and improve other infrastructure so that power supply is not affected by adverse weather conditions," sources said.

They added that release of remaining funds will depend on completion of work by the Power Development Department in both urban and rural areas.

Increasing revenue, plugging pilferage and reducing AT&C losses are also linked to further release of the package.

"Increase in electricity charges mooted across Jammu and Kashmir by the Power Development Corporations in the two divisions is also part of increasing revenue from domestic and commercial consumers, industrial establishments, security installations etc to fulfil guidelines for release of the package," sources said. The increase proposed by the two Corporations will yield more revenue in Jammu than Kashmir, they added.
The Revamped Distribution Sector Scheme will last till the Financial Year 2025-26.

It has been started by the Union Power Ministry with the objective to improve the quality, reliability and affordability of power supply to consumers through a financially sustainable and operationally efficient distribution sector.

All North-Eastern States including Sikkim and States/Union Territories of Jammu & Kashmir, Ladakh, Himachal Pradesh, Uttarakhand, Andaman & Nicobar Islands, and Lakshadweep will be treated as Special Category States.

The Scheme aims to reduce the AT& C losses to pan-India levels of 12-15% and ACS-ARR gap to zero by 2024-25 by improving the operational efficiencies and financial sustainability of all DISCOMs/ Power Departments excluding Private Sector DISCOMs, sources said. https://www.dailyexcelsior.com/centre-approves-rs-12000-cr-package-for-revamping-power-infra-in-jk/

18. How to make MSP feasible? *(thehansindia.com)* 10 May 2022

Successive governments have provided huge subsidies for agro inputs such as fertilisers, electricity, water etc. Income tax on agriculture is also exempted. Bank credits at cheaper rates are provided on a priority basis. At times, the loans are also waived. In addition, cash assistance is given through the 'PM Kissan Samman Nidhi' scheme.

In FY20, under the MSP (minimum support price), the government procured 23 eligible crops, barely 26 per cent by value. This might be below 15 per cent of all crops. Despite this, unsold stock with FCI is about 32 million tonnes and 24 million tonnes with States. Debt of FCI has also exceeded Rs 4 lakh crore incurring huge interest and storage cost. Hence, it is financially not feasible for the government to purchase entire food grain at MSP except for the PDS scheme, as is being done now.

Despite all such assistance, there is perennial distress among farmers causing suicides and agitations. The key impediments are 'low sale price of food grain' at farm gate due to surplus production and the exports are not so competitive every time except for a few years. Unlike industrial products, the production cycle of food grain is too long. But poor farmers don't have financial resources and storage capacity and wait for remunerative prices. A majority of food grains are sold at distress price which is much lower than MSP. Hence, farmers are demanding that; entire produce is sold at guaranteed MSP. Their demand is genuine.

Private trade channels shall not purchase at MSP during crop arrival season. They have to store the stock and incur cost of storage and interest. Considering past market trends and surplus production don't ensure profit unless; the exports are liberally permitted. More so, the exports are not so competitive, unless the export incentives are available. The cost of logistics, capital, energy and other basic inputs in India are too high in India compared to peer nations.

Considering the complexity, India needs an 'out of box scheme,' by which, the farmers will get MSP and the fiscal and debt burden on government and FCI shall reduce. More so, it should be a profitable proposition for the private channel. For this, FCI has to play a vital role and the government should incur capital expenditures in building storage and logistics infrastructures for FCI from budgetary resources without burdening FCI for the repayment of capital cost.

More so, the government should extend export incentives to FCI and private channels including processing industries. Fiscal burden due to export incentives shall be gradually compensated by cutting down the farm input subsidy which, in fact, is not retained with farmers but passed on to consumers.

FCI must assist farmers for selling food grains through auction to private channels under its supervision. The floor price must be kept at about 93-95 per cent of MSP. FCI should fix quality standards and provide testing facilities to avoid any arbitrary deduction by purchasers on the quality ground. Unsold stocks must be essentially stored by FCI and the cheap loan may be extended to farmers up to 90 per cent of stock value at MSP price. Same can be refinanced by Banks to FCI at SLR rate. In absence of such a stocking facility, the farmer is compelled to sell its produce at distress price to the trade channel. This is the key recommendation.

A 'Goods receipt' (GR) may be issued to farmers against stocks mentioning the quantity, quality and loan amount. The validity period of such GR may be 5-6 months. GR must be tradable in the open market, e-NAM and Commodity exchange. FCI must assist and charge a nominal fee of 0.5 per cent of sale value. Interest and storage charges may be levied at 9.0 per cent per annum on the stock value. That may be recovered from the ultimate buyer during delivery of goods. Balance money may be remitted to farmers. This will eliminate interest and storage cost of FCI.

Generally, the price of food grain increases still the next crop arrives. Thus, farmers shall get better prices after availing storage facilities, as normally done by trade channels. With prior consent of farmers, FCI may also purchase stock at MSP as per the needs of PDS scheme. By this, FCI shall not need separate buffer stock, as is being done now. Thus, the debt burden on FCI shall substantially reduce.

If the stock is not sold by farmers within the validity period of GR, they shall lose selling rights and it shall be deemed sale to FCI at MSP. After expiry of validity of GR, FCI shall remit balance money after adjusting debt, interest and storage charges. With above arrangements, the farmers might get about 95 per cent of MSP. Hence, in due course, MSP may be increased by 5-7 per cent. After stabilizing the system, there are fair chances for farmers getting higher prices. FCI shall also be benefited since; its debt burden and storage cost shall reduce. Rather, it might earn gross profit in future years from service fee and storage charges. However, FCI should increase storage capacity and build marketing infrastructures. More so, it must disseminate market information to farmers.

In this process, the stock with FCI might increase due to excess production or poor market demand. In such a situation, FCI must quickly export directly or through trade channels. Government must encourage export and be liberal in giving export incentives to compensate for the loss of FCI and trade channel and processing industries. By this, the debt of FCI shall reduce and the storage capacity shall be available for fresh arrival of crop. More so, trade channels shall also be motivated to participate.

Simultaneously, the government must promote food grain processing industries and trade channels near to FCI godown and share the logistic infrastructure for exports and onward marketing. A team spirit between FCI, government, processing industries, traders, exporters and farmers will certainly deliver the desired outcome. States should also join this team. Farmers may be also pursued for crop diversion; that will reduce agro-imports and enhance farmer's income. A composite plan will certainly resolve the crisis and fetch rural prosperity and reduce urban migration. https://www.thehansindia.com/hans/opinion/news-analysis/how-to-make-msp-feasible-741805