NEWS ITEMS ON CAG/ AUDIT REPORTS (27.07.2022)

1. Indian Railways is seeing major capex allocations, and with it come tough questions *(moneycontrol.com)* JULY 27, 2022

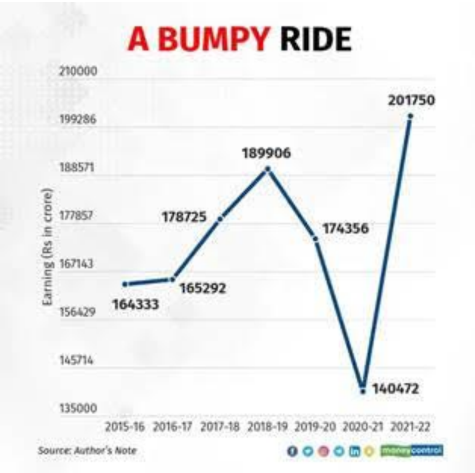
Does the plethora of infrastructure projects make sense in the background of the railways' lacklustre performance, and the competition it faces from road and air traffic?

The deteriorating financial health of the Indian Railways is a matter of national importance and demands more attention than what it receives now. The Comptroller & Accountant General (CAG)'s report, which was tabled in Parliament in December, showed that the railways' Operating Ratio (OR) — which is the working expenses upon the traffic earnings, where a higher ratio would indicate an inability to generate surplus for investments — stood at 114 percent for 2019-20, against its earlier track record of maintaining the OR between 85 percent and 95 percent.

Even if we discount the COVID-19 years (2020 and 2021) — in any case CAG reports take more than a year to come out — this report reflects the current situation pretty accurately. The report also commented that the reported OR camouflages the reality by excluding pension payments.

At the same time, the railways' capex allocation has grown about five times, from Rs 50,000 crore in 2014 to Rs 2.45 lakh-crore in 2022. Due to large-scale borrowing, the railways' long-term debts continue to increase to uncomfortable levels.

Although the gross earnings have improved in the last fiscal, to excel the pre-COVID-19 levels, with good signs of encouraging growth in freight traffic and long-distance reserved passenger segments, the overall picture of the railways' growth of revenues is around a dismal 3 percent YoY in recent years with decreasing market share. This clearly shows that many rail projects do not seem to be contributing commensurately to the revenue.



The railways' continues its all-out modernising spree, with special stress on building infrastructure, and now, moving at an unprecedented speed to acquire new rolling stock. This year is proving to be a watershed one for rolling stock manufacture. In June, the railways finalised its biggest-ever contract for acquiring nearly 75,000 wagons in three years at about Rs 27,000 crore.

Bids of more than Rs 1 lakh-crore for 1,200 9000hp and 800 12000hp locomotives, 200 Vande Bharat equivalent trains, 100 aluminium train sets, and another 100 aluminium push-pulls trains shall be opened in the next three months, with ordering likely in this fiscal itself. Huge tenders for special wagons and EMUs are likely to follow.

While grandiose announcements could be dismissed as hype earlier, now that the government has walked the talk, it begs certain questions.

Does the plethora of infrastructure projects make sense in the background of the railways' lacklustre performance, and the competition it faces from road and air traffic? Surely the government is aware of its financial health, and, therefore it reflects its belief that rail infrastructure is needed for India's economic growth, and viewing its financial health in isolation in not important, at least not in the short term. Moreover, these investments shall help revitalise crucial sectors such as steel, cement, aluminium, electronics, and generate employment.

What is the roadmap for corporatising and privatising the railways? The much-touted bid to privatise train operations last year came a cropper.

What happened to the plan to hive off railways' seven production units (PUs), and bring them under one entity, a corporation tentatively called the Indian Railways Rolling Stock Company, which the government announced as a part of its 100-day action plan upon being re-elected in 2019? Although the government succeeded in corporatizing the ordnance factories, the same for the PUs turned out to be more ticklish due to pressure of unions, and the likely political fallout.

What is now notable is that all the rolling stock tenders invite private parties to build trains and locomotives inside the PUs, employing partly the staff of these units. This is clearly a long-term direction towards gradual privatisation without calling it so. Perhaps an elegant way to infuse technology, and increase private participation, and thereby killing two birds with one stone.

What does it portend for rail-dependent industries which mainly supply equipment and components to these PUs? They face an abrupt changeover on two counts. First, the requirement of entrenched vendors and products shall taper off due to diminishing production of rolling stock manufactured at present; this is what happened when diesel locomotive production was halted suddenly, and many diesel component suppliers went under. Second, firm emergence of a system of quality-centric products and vendors by the private rolling stock majors which are not saddled by the archaic public procurement policy and make-believe transparency. A great opportunity for the capable among exiting ones to diversify and expand, and room for new good companies to enter.

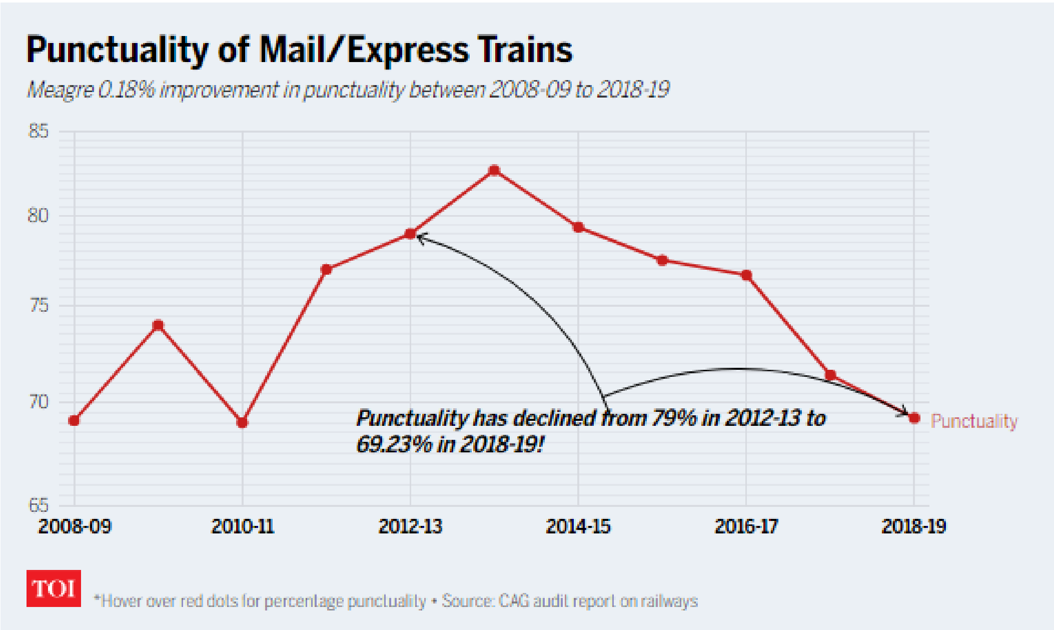
India’s rail sector has never seen such disruptive transformational spunk. It is a time of great promise, and the coming years would show how far the government’s vision fructifies in favourable outcomes for India. https://www.moneycontrol.com/news/opinion/indian-railways-is-seeing-major-capex-allocations-and-with-it-comes-tough-questions-8897911.html

2. The key to make Indian Railways trains run on time *(timesofindia.indiatimes.com)* July 28, 2022

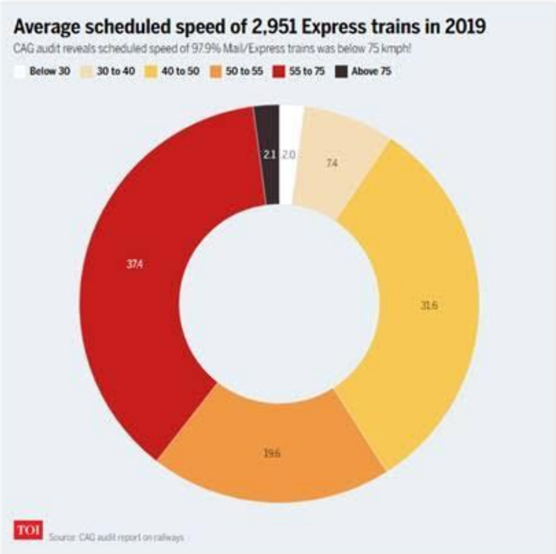
Did you know that in Japan if a train arrives before scheduled time it is seen as a punctuality loss? In fact, Japan measures its train punctuality in seconds. On the other hand, Indian Railways trains are generally perceived to be late - a sad reality which has not changed for several years now!

Since 2015, there has been a significant increase in capital investment - from Rs 12,895 crore in 2008-09 to Rs 33,931 crore in 2015-16 on new lines, gauge conversion, doubling, electrification & track renewal. Experts are also of the view that railways is spending much more on infrastructure upgradation & augmentation in the last few years.

However, in a recent compliance audit report by CAG, it has been noted that despite significant investments of Rs 2.5 lakh crore during 2008-19, there hasn't been a notable improvement in the punctuality of trains. The audit has found a meagre 0.18% improvement in punctuality and 0.61% in the average speed of Express trains. The punctuality of Mail/Express trains has declined from 79% in 2012-13 to 69.23% in 2018-19!



Sample this, Indian Railways has been revising its date to achieve 160 kmph speeds from 1960 and it has still not been achieved till 2019-20. Even after many years, there has been no change in the maximum permissible speed of Rajdhani and Shatabdi trains.



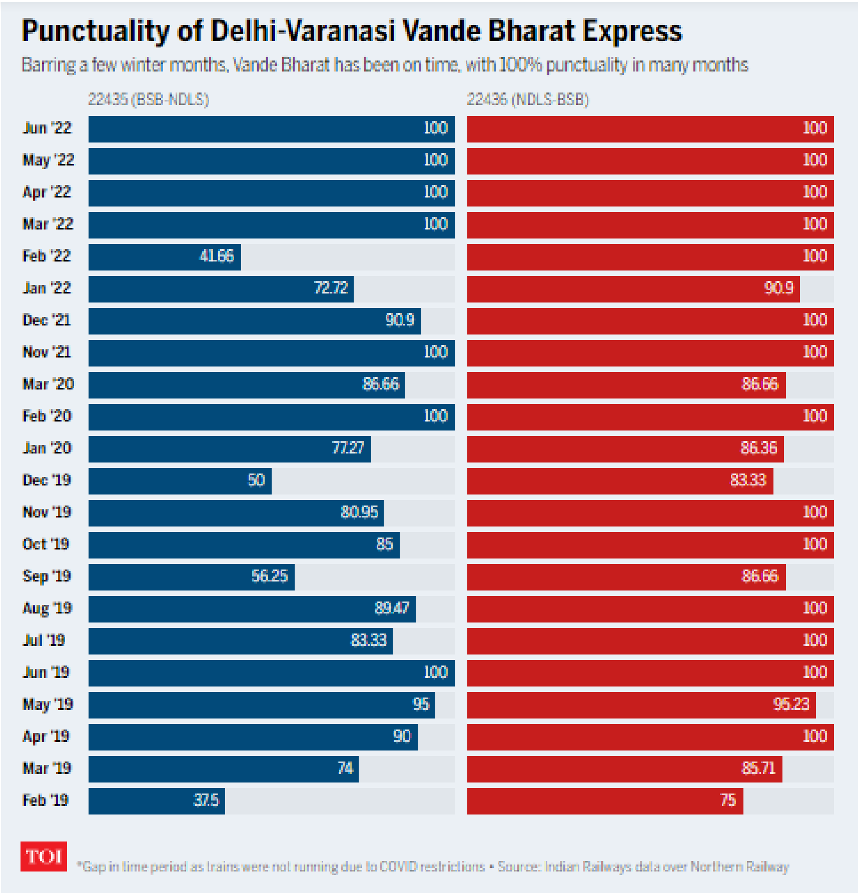
"Mission Raftaar" was introduced in 2016-17 to double the average speed of freight trains and Mail/Express trains by 2021-22. However, the average speed of Mail/Express trains remained the same even after 4 years of this mission, the report notes.

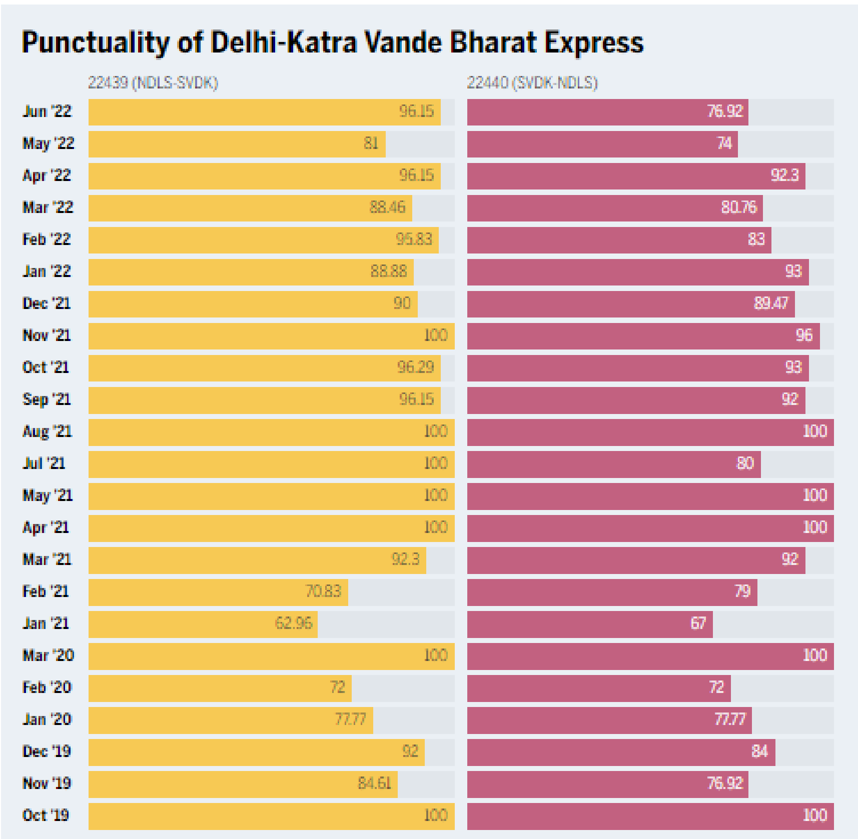
At a time when Indian Railways is planning to roll out hundreds of "future-ready" Vande Bharat Express, we analyse whether they will help solve the problem of punctuality. If not, then what does the railways need to focus on to get this important parameter right and lessons that can be learnt from Japan & China.

Vande Bharat trains the solution?

400 Vande Bharat trains have been announced - chair car, sleeper type and also aluminium trains for the first time on the network. Capable of 160-180 kmph speeds, the trains have been hailed as the future of rail travel in India - both in terms of engineering benefits and passenger comforts.

Incidentally, the CAG report has also noted the relatively better punctuality of these train sets. The stoppage of Vande Bharat 22435/22436 at Kanpur and Prayagraj is only for 2 minutes, the report says. "The halt time includes crew change at Prayagraj. On the similar pattern the stoppages of trains may be considered for reduction by railways to reduce the travel time and decongest busy traffic nodes," it recommends.


Punctuality of Delhi-Varanasi Vande Bharat Express
Barring a few winter months, Vande Bharat has been on time, with 100% punctuality in many months
22435 (BSB-NDLS)
22436 (NDLS-BSB)
Jun '22 100 100
May '22 100 100
Apr '22 100 100
Mar '22 100 100
Feb '22 41.66 100
Jan '22 72.72 90.9
Dec '21 90.9 100
Nov '21 100 100
Mar '20 86.66 86.66
Feb '20 100 100
Jan '20 77.27 86.36
Dec '19 50 83.33
Nov '19 80.95 100
Oct '19 85 100
Sep '19 56.25 86.66
Aug '19 89.47 100
Jul '19 83.33 100
Jun '19 100 100
May '19 95 95.23
Apr '19 90 100
Mar '19 74 85.71
Feb '19 37.5 75
TOI
*Gap in time period as trains were not running due to COVID restrictions • Source: Indian Railways data over Northern Railway


Punctuality of Delhi-Katra Vande Bharat Express
22439 (NDLS-SVDK)
22440 (SVDK-NDLS)
Jun '22 96.15 76.92
May '22 81 74
Apr '22 96.15 92.3
Mar '22 88.46 80.76
Feb '22 95.83 83
Jan '22 88.88 93
Dec '21 90 89.47
Nov '21 100 96
Oct '21 96.29 93
Sep '21 96.15 92
Aug '21 100 100
Jul '21 100 80
May '21 100 100
Apr '21 100 100
Mar '21 92.3 92
Feb '21 70.83 79
Jan '21 62.96 67
Mar '20 100 100
Feb '20 72 72
Jan '20 77.77 77.77
Dec '19 92 84
Nov '19 84.61 76.92
Oct '19 100 100

TOI accessed the punctuality data for the two Vande Bharat trains between Delhi-Varanasi and Delhi-Katra. Barring a few months, the trains have a healthy punctuality rate.

Shri Prakash sees two advantages; minimal turnaround time since no locomotive reversal is required & faster acceleration and deceleration. However, he believes that these will not greatly impact punctuality. "It is important to make sure that no data fudging is done to paint a rosy picture," the Former Railway Board Member (Traffic) cautions.

Sudhanshu Mani, former ICF GM & the man who built Vande Bharat says at present the two trains are unable to run to their full potential. Mani says that once Delhi-Mumbai and Delhi-Howrah are upgraded to 160 kmph, operation of both Shatabdi & Rajdhani type trains would be a game changer. "Not only would travel time be cut down but line capacity would also be enhanced," he tells TOI.

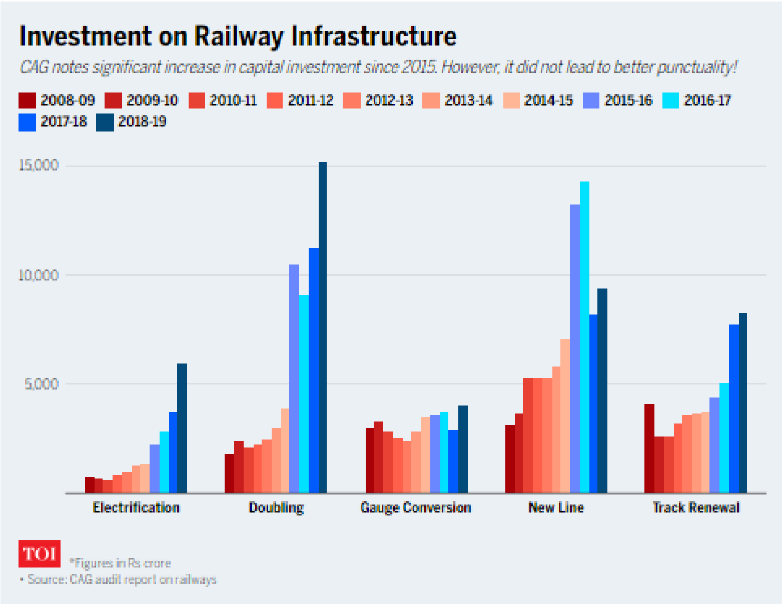
However, Mani adds that even with an optimistic outlook for five years, at max railways will be able to absorb 150 trains on busy routes at 130-160 kmph. "The upgradation of tracks & other railway infrastructure is not likely to keep up with the speed range for Vande Bharats," he adds. The former ICF GM recommends manufacturing some trains with 120 kmph capability at lower cost.

Arindam Guha, Partner at Deloitte India believes that while Vande Bharats will help make up for enroute delays, the major issues will continue to play a key role.

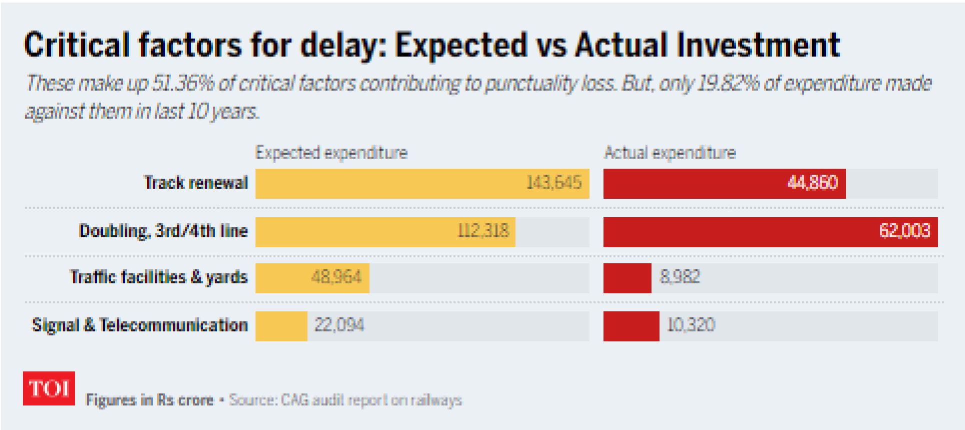
Indeed the CAG report points out that despite having the higher capacity of locomotives, rolling stock, the average speed of coaching trains has not been commensurate with the potential.

So if rolling stock is not majorly to blame, then why are trains delayed?

According to the CAG audit, six factors caused 66% of detention; out of path, engineering, rescheduling of trains by zonal railways, delay from other railways, planned block open line and traffic.



Slamming railways, the report states that even though critical factors like traffic, path, engineering, block & Signal and Telecommunication contribute 51% to punctuality, only 19.81% of expenditure was made against them.



CAG has also noted that there is need for effective track maintenance, longer & frequent stoppages create congestion, line capacity utilisation must be calculated scientifically. Asset failures had an increasing trend & despite the provision of integrated corridor blocks, maintenance activities were not integrated.

Jagannarayan Padmanabhan, Director at CRISIL Infrastructure says there is a network planning issue. Arindam Guha also sees operational coordination & inadequate infrastructure as major issues. "Congestion, few platforms with the length required to handle longer trains, inadequate number of washing pit lines and stabling lines result in longer turnaround time," he says.

Guha adds that operational coordination influences activities like planned and unplanned maintenance, change of crew, refilling of essential items which also impact punctuality.

Lessons from Japan, China & other countries:

CAG is of the view that India has a very high threshold & low standards when it comes to measuring punctuality. "IR measures the punctuality of trains at the terminating stations. In other countries, it is measured at the originating point, intermediate station, and at terminating stations. For measuring punctuality, IR provides an allowance of 15 minutes delay. Other countries have a much stricter threshold," the report states.

How various countries measure punctuality of trains

Indian Railways has an allowance of 15 minutes delay. Other countries have a much stricter threshold.

[1]

Country	Punctuality Yardstick
Japan	**In seconds**
Netherlands	3 minutes
Germany and Russia	5 minutes
Great Britain	10 minutes
India	**15 minutes**

TOI Source: CAG audit report on railways

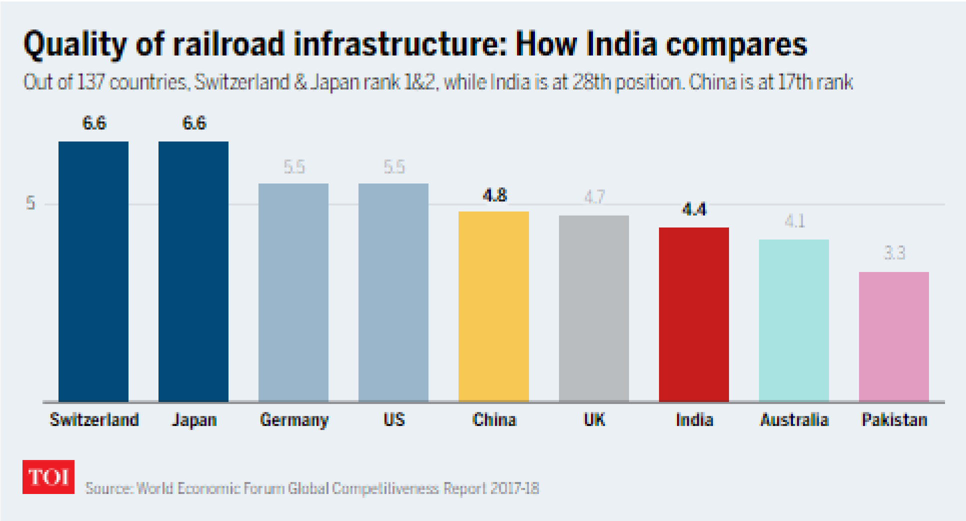
The CAG report points to China for understanding the need for faster trains. “Since 1990, average passenger speeds have increased by more than 60% in China. After six rounds of national railway speed acceleration campaigns, the speed has accelerated to 120-300 Kmph," it notes.

According to a World Bank report, since 2008 China has put into operation over 25,000 km of dedicated high-speed railway lines, far more than the total operating in the rest of the world. "With strong operational capacity and infrastructure and facilities in good condition, China's highspeed rail service has a good record of punctuality and reliability,” the report states. The punctuality rate is over 98% for departures and over 95% for arrivals.

Shri Prakash advocates drawing lessons from Japan. "Punctuality is almost 100% because of the quality of equipment used, and the redundancy built in," he tells TOI. According to him, bullet trains in India will bring new Japanese track technology which we can look to emulate on the network. "Right signalling equipment and coach & locomotive maintenance also require extensive investment," he adds.

Guha of Deloitte believes the introduction of private train operators may help. "Countries like the UK have adopted private passenger trains on output based contracting," he says. "This ensures that the private partner does not deviate from the published schedule without financial penalties," he explains.

Not all is bleak when it comes to the quality of railroad infrastructure in India. According to a recent World Bank analysis on railways in developing countries, India scores reasonably well compared to the other three networks in South Asia (Pakistan, Sri Lanka, Bangladesh). The World Bank report also notes that much of the Indian network has been upgraded significantly, including duplication, electrification, and modern signalling.



The report uses data from the World Economic Forum Global Competitiveness Report 2017-18. However, compared to other major economies of the world, India's quality of railroad infrastructure is relatively less, though not poor.

Where does the solution lie?
Increase the capacity, says Jagannarayan Padmanabhan. "Freight and passenger trains need to be on different tracks. Fast-track the dedicated freight corridor projects," he tells TOI. Bullet & high-speed rail corridors will decongest the network, hence enhancing the capacity, he adds.

Guha of Deloitte says that railways have already initiated steps for augmenting infrastructure starting with high traffic and commercially significant routes like those between metro cities.

He also advocates use of technology-enabled solutions for operational coordination. "This will strengthen coordination between different teams units and close monitoring of turnaround time," he tells TOI.

The CAG audit has noticed that by computerized timetabling, grouping of trains, conflict resolution and integrated maintenance, punctuality of trains can be improved.

Indian Railways prepares its time table manually whereas, globally, simulators and computerised systems are used. However, in an encouraging sign, railways has said that under a recent exercise undertaken with the assistance of IIT Mumbai, speeds of over 2000 trains have been enhanced.

Under the exercise, the travelling time of more than 900 trains has been reduced by more than an hour while for 1600 trains the travelling time has been reduced by more than 30 minutes. 362 passenger trains have been converted into Mail/Express trains while 120 Mail/Express have been converted into super fast service. An increase of 5% in the average speed of passenger train services has been achieved.

As Indian Railways looks to be a key driver of economic growth, it faces stiff competition from roadways and aviation. A key parameter for customer satisfaction is on time delivery of services - be it passenger or freight. Focus on global practices, plugging operational inefficiencies, using scientific solutions and targeted capital investment on infrastructure will go a long way in making railways competitive. https://timesofindia.indiatimes.com/business/india-business/indian-railways-time-table-2022-new-trains-punctuality-cag-report-japan-china-lessons/articleshow/93181216.cms

3. क्या है Freebies कल्चर, जिससे कर्ज में फंसती जा रहीं सरकारें, RBI के बाद सुप्रीम कोर्ट ने भी जताई चिंता *(yourstory.com)* July 28, 2022

भारतीय रिजर्व बैंक (RBI) के बाद सुप्रीम कोर्ट ने भी चुनावों के दौरान राजनीतिक दलों द्वारा फ्रीबीज यानि मुफ्त उपहार देने के कल्चर पर चिंता जताते हुए गंभीर सवाल उठाए हैं.

फ्रीबीज के मुद्दे पर केंद्र सरकार और चुनाव आयोग के रूख तय न कर पाने पर भी सुप्रीम कोर्ट ने नाराजगी जाहिर की है. कोर्ट ने केंद्र से यह भी पूछा कि क्या इस मुद्दे से निपटने के लिए वित्त आयोग की राय मांगी जा सकती है.

चीफ जस्टिस ऑफ इंडिया (CJI) एनवी रमण ने केंद्र सरकार को अपना रूख साफ करते हुए एक एफिडेविट दाखिल कर विस्तार से जानकारी देने का भी निर्देश दिया.

क्या है फ्रीबीज कल्चर?

विभिन्न राजनीतिक दल लोकसभा और विधानसभा चुनावों को देखते हुए केंद्र और राज्य की सत्ता में आने के लिए चुनाव से पहले और बाद में भी मुफ्त उपहार देने की घोषणाएं करती हैं.

सरकारें मुफ्त बिजली, मुफ्त पानी के साथ गैस सिलिंडर और कई अन्य चीजों पर सब्सिडी दे रही हैं. इसके अलावा अधिकतर सरकारें समाज के अलग-अलग तबकों को नकद राशि भी देती हैं.

सभी सरकारें और पार्टियां देती हैं फ्रीबीज

कुछ दिन पहले ही विपक्षी दलों पर रेवड़ी बांटने का आरोप लगाने वाले प्रधानमंत्री नरेंद्र मोदी की सरकार खुद उज्ज्वला योजना के तहत गैस सिलिंडर पर सब्सिडी देती है. इसके साथ किसान सम्मान निधि के तहत सालान 6 हजार रुपये की राशि किसानों को दी जाती है. वहीं, दिल्ली की आम आदमी पार्टी की सरकार बिजली, पानी और एजुकेशन पर भारी सब्सिडी देती है.

हाल ही में समाप्त हुए उत्तर प्रदेश के विधानसभा चुनाव में भाजपा ने कॉलेज जाने वाली छात्राओं को फ्री में स्कूटी देने, किसानों को पांच साल तक मुफ्त बिजली देने, होली और दिवाली पर उज्ज्वला लाभार्थियों को दो एलपीजी सिलेंडर मुफ्त देने और सीनियर सिटिजन को मुफ्त बस यात्रा का वादा किया था.

हिमाचल प्रदेश में भी भाजपा ने 125 यूनिट मुफ्त बिजली देने का वादा किया था जिससे राज्य के राजस्व पर 250 करोड़ रुपये का अनुमानित बोझ पड़ता. ग्रामीण इलाकों में पानी बिल पर छूट, सरकारी बसों में यात्रा पर 50 फीसदी छूट का वादा किया था.

पंजाब की आम आदमी पार्टी की सरकार ने हर परिवार को हर महीने 300 यूनिट फ्री बिजली और हर वयस्क महिला को हर महीने 1 हजार रुपये देने की योजना शुरू की है. इन दोनों योजनाओं पर 17 हजार करोड़ रुपये खर्च होने का अनुमान है. इस तरह, 2022-23 में पंजाब का कर्ज 3 लाख करोड़ रुपये से ज्यादा होने का अनुमान है.

इसके अलावा केरल, तमिलनाडु, पश्चिमी बंगाल, तेलंगाना, आंध्र प्रदेश सहित कई अन्य राज्य ऐसी फ्रीबीज देने की घोषणाएं करते रहते हैं.

आरबीआई की रिपोर्ट

हाल ही में आरबीआई ने अपनी रिपोर्ट में कहा था कि राज्य सरकारें मुफ्त की योजनाओं पर जमकर खर्च कर रहीं हैं, जिससे वो कर्ज के जाल में फंसती जा रही हैं.

आरबीआई की 'स्टेट फाइनेंसेस: अ रिस्क एनालिसिस' की रिपोर्ट के अनुसार, पंजाब, राजस्थान, बिहार, केरल और पश्चिम बंगाल कर्ज में धंसते जा रहे हैं और उनकी हालत बिगड़ रही है.

आरबीआई ने अपनी इस रिपोर्ट में CAG के डेटा के हवाले से बताया है कि राज्य सरकारों ने 2020-21 में सब्सिडी पर कुल खर्च का 11.2 फीसदी खर्च किया था, जबकि 2021-22 में 12.9 फीसदी खर्च किया था.

रिपोर्ट में बताया गया कि सब्सिडी पर सबसे अधिक खर्च झारखंड, केरल, ओडिशा, तेलंगाना और उत्तर प्रदेश में बढ़ा है. वहीं, गुजरात, पंजाब और छत्तीसगढ़ की सरकार ने अपने कुल खर्च का 10 फीसदी से ज्यादा खर्च सब्सिडी पर किया है.

आरबीआई की रिपोर्ट के अनुसार, साल 2026-27 तक पंजाब सरकार पर ग्रॉस स्टेट डोमेस्टिक प्रोडक्ट (GSDP) का 45 फीसदी से अधिक कर्ज हो सकता है. इसके अलावा राजस्थान, केरल और पश्चिम बंगाल का कर्ज GSDP का 35 तक जा सकता है.

मार्च, 2021 तक राज्य सरकारों पर 69.47 लाख करोड़ का कर्ज

आरबीआई की रिपोर्ट में बताया गया था कि मार्च, 2021 तक देशभर की सभी राज्य सरकारों पर 69.47 लाख करोड़ रुपये का कर्ज है. मार्च, 2021 तक 19 राज्यों पर 1 लाख करोड़ रुपये से ज्यादा का कर्ज था. सबसे अधिक 6.59 लाख करोड़ का कर्ज तमिलनाडु की सरकार पर है. उत्तर प्रदेश पर 6.53 लाख करोड़ रुपये का कर्ज है. https://yourstory.com/hindi/world-richest-walton-family-loses-around-11-4-billion-dollar-in-one-day-as-walmart-inc-slashed-its-earning-outlook/amp?utm_pageloadtype=scroll

STATES NEWS ITEMS

4. Lessons Indian states can learn from Sri Lankan debt crisis *(news9live.com)* July 28, 2022

There have been growing worries about some states' poor financial health. The concern was reportedly amplified by secretaries of the Central government during their meeting with the Prime Minister in April. With Sri Lanka suffering a total economic collapse and Pakistan being on the verge, it is imperative to note the enormous amount of debt that some Indian states have incurred over the years.

Economists allay the worst fears about states suffering the island nation's fate, arguing that India's economy is not a small economy like Sri Lanka's which needs to import many essentials of life and that India has a robust foreign exchange reserve. India's reserves currently stand at $572.7 billion even after spending $70 billion in the last six months. India also has 760.42 tonnes of gold in its reserves and the country hasn't taken any unsecured loan from any global lender.

However, states such as Andhra Pradesh, Punjab, Bihar, Rajasthan, Uttar Pradesh, Kerala, West Bengal among a few others are said to be heavily under debt because of excessive borrowings.

According to an RBI study, based on the debt-GSDP (Gross States Domestic Product) ratio in 2020-21, Punjab, Rajasthan, Kerala, West Bengal, Bihar, Andhra Pradesh, Jharkhand, Madhya Pradesh, Uttar Pradesh and Haryana are the highest debtors. These 10 states account for around half of the total expenditure by all state governments in India, says the study.

Here's how heavily some of these states are under debt:

Andhra Pradesh: It had a total outstanding debt of more than Rs 3.60 lakh crore in the financial year 2021-22. The state registered an increase in debt of almost Rs 40,000 crore compared to the previous year. The high amount of debt is also leading to a rising interest burden on the state. According to government data, the interest burden is about Rs 22,000 crore.

According to ET Government.com, "The government has identified 213-acre land parcels across the state, which include the Visakhapatnam district collector office, tehsildar offices and other buildings to mortgage or sell off to raise funds to the tune of Rs 1,600 crore to carry onthe administration."

Punjab:
The total outstanding debt of Punjab is around Rs 2.85 lakh crore. The recently elected Bhagwant Mann-led AAP government blames the previous government's mishandling of the funds. Before it stormed to power in Punjab, AAP made a promise of giving 300 units of free electricity a month and Rs 1,000 to every woman in the state every month. Experts say that this will cause a humongous burden on the state's exchequer. Mann had sought a special financial package of Rs 1 lakh crore from the Centre after coming to power.

Uttar Pradesh: It has an outstanding liability of Rs 6.5 lakh crore, according to IANS. The total outstanding debt is said to have shot up by nearly 39 per cent in five years. The CAG data reveals UP's revenues increased only five per cent in the last five years while its interest payments grew by six per cent.

Bihar: The total outstanding debt of the Bihar government was more than Rs 2.27 lakh crore at the end of 2020-21. The audited figure was 36.73 per cent of the GSDP. The borrowings which increased during 2021-22 are expected to reach nearly 39 per cent of GSDP. The state's debt to GSDP ratio was estimated at 38.7 per cent for 2022-23.

Rajasthan: According to chief minister Ashok Gehlot, Rajasthan's debt burden increased to Rs 3 lakh crore in five years from Rs 1.29 lakh crore in the previous BJP regime.

"Punjab is expected to remain in the worst position as its debt-GSDP ratio is projected to exceed 45 per cent in 2026-27, with further deterioration in its fiscal position. Rajasthan, Kerala and West Bengal are projected to exceed the debt-GSDP ratio of 35 per cent by 2026-27. These states will need to undertake significant corrective steps to stabilize their debt levels," says the RBI study.

News9 spoke to economist Arun Kumar, retired Professor of Economics from JNU.

Why are we seeing such a situation with some states?
The state's resource position is usually worse than that of the Centre because it has most of the tax resources in the country. For example, income tax, corporate tax, customs duty, etc. are with the Centre, while the GST is shared. The Centre is supposed to support the states in case of any shortfall in the GST revenue (compared to the targeted amount) through the compensation cess. In the last two years during the pandemic, the compensation did not come and the states were required to borrow. During the Covid-19 pandemic, the borrowing requirements increased for all and that's why their debt would have risen. However, if the compensation from the Centre had come, their borrowing requirements would have been reduced.

Further, a state's borrowing capacity is limited and subject to the Centre's and RBI's permissions. So, how could they borrow excessively? Further, Centre's debt to GDP ratio in 2020-21 reached 59 per cent which is higher than most of the states cited as profligate. Finally, the debt to GDP ratio of Japan is around 227 per cent and that of USA 137 per cent. These economies are doing quite well. So, the problem is not just the indebtedness but how the debt is utilized, etc.

Does the onus also lie with the Centre?
If the Centre was collecting more taxes, possibly through direct taxes, the states would have got 41 per cent share of that. But the government has been giving up direct taxes like giving corporate tax concessions and so on. As a result, in 2019, the collections were less by Rs 1.6 lakh crore, which also impacted the states. So, a part of the blame for states not having enough resources goes to the Centre because it has not been collecting as much tax as it should have.

The states can't borrow after a certain limit set under the Finance responsibility and Budget Management Act (FRBM). However, the Centre can borrowings much more because they can breach the FRBM set limit, as they have been doing for long. The Centre has further undermined states' financial position by collecting cess. The cess is not shared with the states. So, the more Centre uses cess, the more the states get short-charged. Earlier the Centre used to borrow to give to the states but now the states have to borrow on their own account so their debt rises. But it is still much less than what the Centre borrows and their debt-GDP ratio is less than that of the Centre.

Yet, is undoubtedly true that the states also have to be careful about their budget deficit; if their borrowing rises dramatically so would the interest burden on their budget which will reduce the money available for development.

Can the states go down the Sri Lanka path?

There is a difference between a country and a state of a nation. Sri Lanka is smaller than most of the big Indian states. The island nation's population is 22 million, which is almost equal to Delhi's population. Being a part of India, the constituent states are in a different situation because India can produce everything it needs, except energy. Sri Lanka is not in that position. The country was short of the essentials whereas we aren't. Sri Lanka has to earn foreign exchange to buy these things, whereas none of the states of India have to earn foreign exchange. These are available as a national resource. Further, Sri Lanka is heavily dependent on tourism and remittances which collapsed during the pandemic so its foreign exchange earnings dropped sharply.

Therefore, India will not face the kind of crisis that Sri Lanka is facing. Even if some states have a high deficit and high borrowing, it is India as a whole that has to face the situation. A small economy is not self-sufficient, whereas large economies like that of India are largely self-sufficient. We have a robust foreign exchange reserve. Sri Lanka was down to $50 million of reserves whereas we have $570 billion of reserves. We aren't in the position that our import of energy will suddenly decline and impact the economy. In any case, the states' position could improve if the Centre starts collecting more revenue.

What are the lessons we can learn from the Sri Lanka crisis?

The Centre has been distributing many freebies, which has resulted in political parties in the states to follow suit. There are two kinds of give-aways by governments, one which are not basic to life of citizens, like, distributing cycles, laptops, etc. Then there are the essential category items which should be called public services such as, education, health, energy, clean drinking water -- things without which life can't go on. The states are largely responsible for providing these essentials. The burden is heavier on states than on the Centre. Since they have to spend more, they have to raise more money. Therefore, when the Centre doles out money in different forms, the opposition ruled states too are forced to do that. The Centre not only has access to more tax resources but can raise far more money than the states. So, the onus is more on the Centre to apply fiscal correctives and help the states rein in their debt. https://www.news9live.com/india/lessons-indian-states-can-learn-from-sri-lankan-debt-crisis-185381?infinitescroll=1

5. Responsible spending will build a strong economy: Puducherry Lt Governor *(newindianexpress.com)* July 28, 2022

PUDUCHERRY: Responsible spending will lead to building a strong economy, Puducherry Lt Governor Dr Tamilisai Soundararajan told officials at an audit sensitisation programme for Heads of Office (HODs) and Drawing and Disbursement Officers (DDOS). The meeting was organised by the Office of the Principal Accountant General (Audit-II), Branch Office Puducherry on Wednesday.

The programme was organised after government officials failed to submit accounts, delayed the filing of timely reports, and failed to respond to the Comptroller and Auditor General (CAG) reports involving recommendations, utilisation of Central funds, lacunas over the years.

The government departments have not responded to 112 paragraphs on the audit report for 2014-15, and action taken was pending for PAC recommendation from 1993-94, which includes 497 paragraphs by departments and non-submission of accounts of PSUs, local bodies and State autonomous bodies, said Speaker of Assembly R Selvam. Besides, the government departments did not respond to the CAG's inspection report from 2018 - 2021 and utilisation certificates for Central funds have remained pending for years and as a result, funds could not be availed under the schemes now, he said.

Speaking on the occasion, the L-G stressed on the need for maintenance of proper accounts which will enable curtailment of unnecessary expenses. The CAG is a critical link between the citizens and the Legislature on the one hand, and the public institutions and government departments on the other. She noted that the Audit Department organised an orientation programme on June 8 for the PAC members, followed by a review meeting on June 27 attended by the Speaker, PAC Chairman, Chief Secretary, secretaries to the government and HODs.

The Speaker, in the guest of honour address, briefed attendees about the importance of the audit and requested they be benefited by the programme as this was a unique function. PAC chairman KSP Ramesh shared his experiences with PAC members of other States in Delhi.

KP Anand, Principal Accountant General, TN and Puducherry briefly outlined the objective of the programme. Puducherry Senior Deputy Accountant General Varsini Arun explained the audit process and the importance of furnishing timely replies by the departments.

Rajeev Verma, Chief Secretary to Government and Prashant Goyal, Development Commissioner-cum-Principal Secretary to Government (Finance) were present. https://www.newindianexpress.com/states/tamil-nadu/2022/jul/28/responsible-spending-will-build-a-strong-economypuducherrylt-governor-2481346.html

6. Govt in the hole for revenue arrears of Rs 4 cr; Commercial Tax Dept, WRD biggest defaulters *(heraldgoa.in)* July 28, 2022

PANJIM: The cash-strapped Goa government has racked up revenue arrears to the tune of Rs 4,007 crore, 22.33 per cent of which has been pending for more than five years, revealed the Comptroller and Auditor General of India (CAG).

The auditing agency has called for urgent government intervention to clear the outstanding arrears of four major departments - Electricity, Commercial Taxes, Public Works Department (PWD) and Water Resources Department (WRD).

The CAG report on the Revenue Sector for the year ending March 2020 stated that with the passage of time, the chances of recovering arrears become low.

"The arrears of revenue pending collections in respect of some principal departments of the State Government as on March 31, 2020 were Rs 4,007.31 crore of which Rs 894.68 crore has been pending for more than five years," CAG said.

The Commercial Tax department is the biggest defaulter on the recovery front. An amount to the tune of Rs 1,882.28 crore is pending to be recovered, of which Rs 778.90 crore has been pending for more than five years. The department said that 749 cases are pending in the Revenue Recovery Court (RRC).

The department said that it has been constantly making efforts to recover arrears outside the RRC and the dealers were persuaded to pay the dues and reminders were also issued.

The second major defaulter is the WRD, which has failed to recover more than Rs 1,548.66 crore over the years. The records of the WRD showed arrears due from the PWD for domestic and industrial water supply at Rs 1,060 crore and Rs 5.31 crore, respectively.

The PWD pumps water from the Salaulim Irrigation Project owned and managed by the WRD, to supply consumers after treatment. The WRD informed the CAG that it has sent a recovery notice to the PWD, which in turn has taken up the matter with the government.

The primary reason for the outstanding arrears was that the WRD had unilaterally revised the water charges for supply to PWD at Rs 15 per cu m, effective from 2013, and at Rs 20 per cu m, from 2016.

The PWD stated that the revised rate of raw water fixed by the WRD was much higher than the rate charged by it for supply of treated water (Rs 2.50 per cu m) to domestic consumers, after incurring all the costs for water treatment. While fixing the water charges, the WRD did not consult the PWD and had arbitrarily arrived at the rates, without considering the cost incurred for water treatment, distribution and the recovery rate of PWD from the end consumer.

Apart from this, there is another Rs 29.38 crore pending in the form of water tax, which the beneficiaries are asked to pay on priority. The other outstanding are hire charges of machinery, and rent from shops and halls.

The Electricity Department is due to recover Rs 439.50 crore from its consumers, against whom action in the form of disconnection of power and issuance of notices has been initiated.

Another Rs 136.87 crore is due for recovery from the PWD. https://www.heraldgoa.in/Goa/Govt-in-the-hole-for-revenue-arrears-of-Rs-4-cr-Commercial-Tax-Dept-WRD-biggest-defaulters/192303

7. Freedom Fighter's Pension Cannot Be Said To Be "Income" For Denying Benefit of Family Pension: Madras High Court *(livelaw.in)* July 28, 2022

The Madras High Court recently reiterated that the Freedom Fighter's Pension could not be brought under the category of family income for grant of family pension. It observed that Freedom Fighter's pension is given to honor the sacrifices made by them for the nation in the freedom struggle. The court thus allowed a woman's plea to draw a family pension arising out of her mother's service in addition to the freedom fighter's pension.

The respondents are directed to grant family pension to the petitioner arising out of the state government civil service of the petitioner's deceased mother in addition to the freedom fighters pension within a period of eight weeks from the date receipt of a copy of this order. No costs. Consequently connected miscellaneous petition stands closed.

The court also observed that Freedom Fighter's pension was given to honour the contributions and sacrifices of the freedom fighters and therefore it could not be brought under the category of income.

The main objective of the Freedom Fighters Pension Scheme (Swatantrata Sainik Samman Yojana) is to honour the contribution and the sacrifices of the freedom fighters to the nation. Through this scheme monthly pension is provided to pensioners so that they can lead their life with respect. This scheme is basically a token of respect for the contribution of freedom fighters in the national freedom struggle.

In the present case a woman, S Jeevalakshmi was challenging the order passed by Senior Accounts Officer, Office of the Principal Accountant General,cancelling the sanction of family pension to the petitioner. The petitioner was an unmarried woman and the daughter of a Freedom fighter. Her father Late S.T.Sivasamy was granted Freedom Fighter's family pension. The petitioner's mother was working as a School Assistant.

After her mother's demise, the petitioner's father was receiving the family pension in addition to the Freedom fighter's pension. After he passed away, the petitioner, being the legal heir was granted Freedom Fighter's pension. The family pension, however, was not drawn by the petitioner or her siblings.

Meanwhile, the Tamil Nadu Government ordered for family pension to unmarried daughters above 25 years on the condition that their income should not exceed Rs.2,550/- month and which was subsequently enhanced to Rs.7,850/-. The petitioner made an application for a family pension and was granted the same. However, the Senior Accounts Officer directed the Treasury Officer to cancel the sanction of family pension observing that the petitioner was not eligible for drawing family pension since she was already receiving the Freedom fighter's pension.

The petitioner contended that the pension of a freedom fighter cannot be termed as income and would not disentitle her from receiving the other family pension arising out of her mother's service. This position was already upheld by the Supreme court in its judgments.

The respondents relied on two government orders, G.O(Ms)No.325 Finance (Pension) Department dated 28.11.2011 and G.O(Ms)No.337 Finance (PM Cell) Department dated 14.11.2017 and submitted that an unmarried daughter of a pensioner was entitled to family pension provided her monthly income does not exceed Rs. 7,850/-. It was also clarified by the government that monthly income includes all income. All income would, therefore include the freedom figther's pension also. Thus, according to the respondents, since the petitioner is already receiving a sum of Rs.13,390/- as Freedom Fighter's Pension, the petitioner is not eligible for a family pension arising out of her mother's employment. The respondent also contended that another government order G.O.Ms.No.290 Public (Ex-Servicemen) Department dated 05.04.2017 does not permit granting of dual pension.

The court referred to the judgements of the Supreme court and the Madras High Court where the courts have continuously reiterated that the payment of Freedom Fighter's pension was to honour their sacrifices and to mitigate their sufferings. In State of Orissa Vs. Choudhuri Nayak (2010) 8 SCC 796, the Supreme Court had even directed the authorities to treat the applicants with respect and not to see it as a routine scheme for payment of compensation. The Madras High Court in K.Arumugam Vs the Secretary to Government (2006) had also held that freedom fighter's pension cannot be termed as income as it was an honour given to the freedom fighters.

In view of the existing precedents, the court was satisfied that the pension received by the Petitioner arising out of the Freedom Fighter's pension could not be taken as an income to deny her the family pension arising out of her mother's services. Thus, the reasons given by the respondents for denying the pension could not be sustained in the eye of the law. https://www.livelaw.in/news-updates/madras-high-court-freedom-fighters-pension-cannot-be-brought-under-the-meaning-of-income-205014

SELECTED NEWS ITEMS/ARTICLES FOR READING

8. The poor state of India's fiscal federalism *(thehindu.com)* July 28, 2022

The concerns of the founding fathers — addressing socio-economic inequities — are being forgotten in today's fiscal policy

In his last speech, in 1949, to the Constituent Assembly, B.R. Ambedkar sounded a note of caution about the Indian republic entering a life of contradictions. "In politics we will have equality and in social and economic life we will have inequality. These conflicts demanded attention: fail to do so, and those denied will blow up the structure of political democracy", he warned, though Jawaharlal Nehru truly believed that inequities could be addressed through his tryst with the planning process. A degree of centralisation in fiscal power was required to address the concerns of socio-economic and regional disparities, he felt. This asymmetric federalism, inherent to the Constitution, was only accelerated and mutually reinforced with political centralisation since 2014, making the Union Government extractive rather than enabling. While States lost their capacity to generate revenue by surrendering their rights in the wake of the Goods and Services Tax (GST) regime, their expenditure pattern too was distorted by the Union's intrusion, particularly through its centrally sponsored schemes .

A politicised institution

Historically, India's fiscal transfer worked through two pillars, i.e., the Planning Commission and the Finance Commission. But the waning of planning since the 1990s, and its abolition in 2014, led to the Finance Commission becoming a major means of fiscal transfer as the commission itself broadened its scope of sharing all taxes since 2000 from its original design of just two taxes — income tax and Union excise duties. Today, the Finance Commission became a politicised institution with arbitrariness and inherent bias towards the Union government. The original intention of addressing inequities, a lofty idea, indeed, was turned on its head as it metamorphosed into one of the world's most regressive taxation systems due to a centralised fiscal policy.

So, let us see what has changed since 2014. The concerns of the founding fathers — addressing socio-economic inequities — were forgotten in the process of ushering in an era of political centralisation and cultural nationalism that drive today's fiscal policy. To be sure, India was never truly federal — it was a 'holding together federalism' in contrast to the 'coming together federalism,' in which smaller independent entities come together to form a federation (as in the United States of America). In fact, the Government of India Act 1935 was more federal in nature than the Constitution adopted on January 26, 1950 as the first offered more power to its provincial governments.

Anticipating this threat of centralisation, C.N. Annadurai asserted in the Tamil Nadu Assembly in 1967, 'I want the centre to be strong enough to maintain the sovereignty and integrity of India…should they have education and health department here... in what way does that strengthen the sovereignty and independence of India?' Subsequently, the Dravida Munnetra Kazhagam constituted a committee under

Justice P.V. Rajamannar in 1969, the first of its kind by a State government, to look at Centre-State fiscal relations and recommend more transfers and taxation powers for regional governments. It did not cut ice with the rest of India and centralisation, though partly contained in the 1990s and 2000s due to the coalition at the Centre, touched its apogee in 2014.

Hollowing out fiscal capacity

The ability of States to finance current expenditures from their own revenues has declined from 69% in 1955-56 to less than 38% in 2019-20. While the expenditure of the States has been shooting up, their revenues did not. They still spend 60% of the expenditure in the country — 85% in education and 82% in health. Since States cannot raise tax revenue because of curtailed indirect tax rights — subsumed in GST, except for petroleum products, electricity and alcohol — the revenue has been stagnant at 6% of GDP in the past decade.

Even the increased share of devolution, mooted by the Fourteenth Finance Commission, from 32% to 42%, was subverted by raising non-divisive cess and surcharges that go directly into the Union kitty. This non-divisive pool in the Centre's gross tax revenues shot up to 15.7% in 2020 from 9.43% in 2012, shrinking the divisible pool of resources for transfers to States. In addition, the recent drastic cut in corporate tax, with its adverse impact on the divisible pool, and ending GST compensation to States have had huge consequences.

Besides these, States are forced to pay differential interest — about 10% against 7% — by the Union for market borrowings. It is not just that States are also losing due to gross fiscal mismanagement — increased surplus cash in balance of States that is money borrowed at higher interest rates — the Reserve Bank of India, when there is a surplus in the treasury, typically invests it in short treasury bills issued by the Union at lower interest rate. In sum, the Union gains at the expense of States by exploiting these interest rate differentials.

By turning States into mere implementing agencies of the Union's schemes, their autonomy has been curbed. There are 131 centrally sponsored schemes, with a few dozen of them accounting for 90% of the allocation, and States required to share a part of the cost. They spend about 25% to 40% as matching grants at the expense of their priorities. These schemes, driven by the one-size-fits-all approach, are given precedence over State schemes, undermining the electorally mandated democratic politics of States.

In fact, it is the schemes conceived by States that have proved to be beneficial to the people and that have contributed to social development. Driven by democratic impulses, States have been successful in innovating schemes that were adopted at the national level, for example, employment guarantee in Maharashtra, the noon meals in Tamil Nadu, local governance in Karnataka and Kerala, and school education in Himachal Pradesh.

The diversion of a State's own funds to centrally sponsored schemes, thereby depleting resources for its own schemes, violates constitutional provision. Why should there be a centrally sponsored scheme on an item that is in the State list? Similarly, why should the State share the expenditure of a scheme on the Union list? For instance, health is on the State list, so why should the Union thrust this scheme onto States; even on those that are better performing such as Tamil Nadu and Kerala? It only impedes States from charting their own autonomous path of development.

Deepening inequality

This political centralisation has only deepened inequality. The World Inequality Report estimates 'that the ratio of private wealth to national income increased from 290% in 1980 to 555% in 2020, one of the fastest such increases in the world. The poorest half of the population has less than 6% of the wealth while the top 10% nearly grab two-third of it'. India has a poor record on taxing its rich. Its tax-GDP ratio has been one of the lowest in the world — 17% of which is well below the average ratios of emerging market economies and OECD countries' about 21% and 34%, respectively.

Pavithra Suryanarayan, a political scientist at London School of Economics, demonstrates that the Indian elites historically undermined fiscal capacity as they felt threatened by the political equality offered by the one person-one vote system. That hollowing out of fiscal capacity continued for decades after Independence, resulting in one of the lowest tax bases built on a regressive indirect taxation system in the world. India has simply failed to tax its property classes. If taxing on agriculture income was resisted in the 1970s when the sector prospered, corporate tax has been slashed by successive governments thanks to a pro-business turn in the 1990s. India does not have wealth tax either. Its income tax base has been very narrow. Indirect tax still accounts for about 56% of total taxes. Instead of strengthening direct taxation, the Union government slashed corporate tax from 35% to 25% in 2019 and went on to monetise its public sector assets to finance infrastructure.

In sum, India's fiscal federalism driven by political centralisation has deepened socio-economic inequality, belying the dreams of the founding fathers who saw a cure for such inequities in planning. It has not altered inter-state disparities either. If there was anything that alleviated poverty, reduced inequality and improved the well-being of people, these were the time-tested schemes of State governments, but they are now under threat. https://www.thehindu.com/opinion/lead/the-poor-state-of-indias-fiscal-federalism/article65690849.ece

9. The road to India's $5 trillion economy *(livemint.com)* July 28, 2022

As the world cautiously emerges from Covid-19, countries are charting a roadmap to accelerate economic growth and build future resilience. Given that the global pandemic strained public resources, public-private partnerships (PPPs) can be an effective tool to optimise private sector expertise and efficiency, raise private capital leveraging scarce public funds, and build back better by offering quality, efficient services to people.

For India to realise its vision of a $5 trillion economy by 2025, $4.5 trillion must be invested in national infrastructure by 2030. Timely and efficient implementation of this investment is critical to meet the challenges of a major demographic-economic trend: by 2030, around 42% of India's population is likely to live in cities, and the number of metropolitan cities is estimated to increase from 46 (Census 2011) to 68 in 2030. To make cities liveable and sustainable, citizens need efficient services, including transport, sanitation, and others.

If planned well, cities can promote businesses, offer greater job prospects, and provide a better quality of life for people. To achieve that, municipal governments will need to address challenges, including poor air and water quality, and regulatory bottlenecks.

The question is, how?

The PPP model can be an effective and sustainable option to strengthen the nation's infrastructure. A leading country in terms of PPPs, India ranks 70 out of 140 countries for infrastructure quality in the Global Competitiveness Index. Over the last few years, the government has rolled out several PPP programs for the delivery of timebound, high-priority public utilities and infrastructure. Going forward, the private sector needs to expand its focus to include underserved sectors such as water, waste, and power distribution. To increase the number of infrastructure projects and tap the massive investment needs, the involvement of municipalities will be critical for India.

Recognising the need for investment in municipal infrastructure, the International Finance Corporation (IFC), a member of the World Bank Group, has provided more than $10 billion in financing for 300 projects and provided advisory services to cities in more than 60 countries over the past decade. In India, we have partnered with state governments on bankable PPPs focused on climate, social and economic inclusion, and sustainable infrastructure and connectivity, that could serve as a template for emerging markets. This includes the commercial closing of 1.5 GW-capacity Agar, Shajapur and Neemuch solar parks in Madhya Pradesh, which smashed the tariff floor and almost halved the average solar power purchase cost of the state.

Through the project's innovative two-procurer arrangement, the Indian Railways will procure power to run trains in seven states benefiting millions of Indians. IFC structured India's first hybrid-annuity PPP for sewage treatment, boosting the National Mission for Clean Ganga in Uttar Pradesh and Uttarakhand, and improving water quality for millions living on the banks of the Ganga River. We have also developed pioneering health PPP projects for tertiary hospitals, medical education, diagnostic services, and universal social health insurance in multiple states including Maharashtra, Bihar, and Jharkhand.

Future Roadmap

Despite the Indian government's approach to decentralised growth, encouraging cities to consider investing strategically by tapping options for commercial borrowing is the biggest challenge. In FY18, the average commercial borrowing by the 37 largest municipalities was less than $9 million per city.

Also, while initial municipal bonds are a step in the right direction, there is scope for more funds to be raised. To scale up, the use of guarantees and credit enhancement for projects (rather than just support as viability gap or funding) would be a great step ahead. Further, the guarantees should be made with fiscal sustainability in mind. In our experience, the targeted use of guarantees or credit enhancement mechanisms in PPP structures can effectively leverage private sector funding while addressing counterparty risks.

Moreover, a clear pipeline of national and municipal infrastructure projects with timelines will allow equity investors, lenders, and developers to plan better. A well-designed strategy with uniform guiding principles for quality contracts will attract more private-sector funders and developers, including international players while enabling smooth implementation.

For a country as diverse as India, PPPs can lead to faster implementation of projects, lower costs, and increased efficiency to sustain higher performance over the life of the projects. Most importantly, by mobilising private capital, PPPs can free up scarce public funding for a range of critical services—irrigation, sanitation, health, and education.

With municipal authorities and state governments collaborating with the private sector to build sustainable cities, we are confident India will soon be ready for the next chapter in 21st-century urban resilience. https://www.livemint.com/opinion/online-views/the-road-to-india-s-5-trillion-economy-11658994649086.html

10. Rs 1.64 lakh crore revival package for BSNL gets Cabinet nod *(indianexpress.com)* July 28, 2022

The Union Cabinet on Wednesday cleared a Rs 1.64-lakh crore package for revival of state-owned telecom service provider Bharat Sanchar Nigam Ltd (BSNL), with the focus on fresh capital for upgrading the loss-making company's network and allocating spectrum for it to offer 4G services, de-stressing its balance sheet and augmenting its fiber network.

The four-year revival strategy follows a 2019 booster, when the government had announced a Rs 70,000-crore package mainly to cover a voluntary retirement scheme for BSNL employees.

Of the total revival package announced Wednesday, Rs 43,964 crore will be a cash component, while the remaining Rs 1.2 lakh crore of non-cash component will be spread over four years. The Centre will make administrative allocation of spectrum BSNL needs to offer 4G services. The allocation of spectrum in 900/1,800 MHz band at the cost of Rs 44,993 crore would be through equity infusion.

"The 2019 relief package gave BSNL a lifeline. Before that, it was making operational losses, which wasn't sustainable. The package helped BSNL in becoming operational profitable. With the latest relief package, we expect BSNL to become net profitable in the next three-four years," Minister of Communications Ashwini Vaishnaw told reporters.

To meet the projected capital expenditure (capex) for the next four years, the Centre will fund capex of Rs 22,471 crore for developing 4G technology stack, while providing Rs 13,789 crore to BSNL as viability gap funding for commercially unviable rural wireline operations done between FY15 and FY20, he added.

Further, to enhance the operator's wireline offering, the Telecom Department has proposed the merger of Bharat Broadband Nigam Ltd (BBNL) with BSNL. BBNL is the nodal agency for executing the BharatNet project. The infrastructure created under

BharatNet will continue to be a national asset, accessible on a non-discriminatory basis to all the telecom service providers.
To de-stress the balance sheet, Rs 33,404 crore statutory dues will be converted into equity. The Centre will also provide sovereign guarantee for raising money to repay current loans. https://indianexpress.com/article/business/companies/cabinet-nod-to-rs-1-64-lakh-cr-bsnl-revival-package-8055112/

11. From freebies to welfare *(indianexpress.com)* NK Singh | 28 July 2022

The PM's recent remarks about the perils of freebie culture should serve as a timely reminder to those promising fiscally imprudent and unsustainable subsidies. His opposition to this culture should not be misconstrued as an objection to extending state support to citizens, especially the lower strata.
In a recent address, the prime minister shared his anguish on what he called the "revdi" or the freebies culture. This comes immediately on the back of widespread concerns among domain economists, including a recent report of the RBI on states' finances. The report highlighted the perilous condition of states' finances and enhanced debt stress on account of these flawed policies.

Earlier, speaking at the annual day lecture of the Delhi School of Economics on April 19, I had mentioned that these freebies are "something that is given to you without having to pay for them, especially as a way of attracting your support for or interest in something." Is it ironic that much earlier, Albert Einstein had said, "sometimes one pays most for the things one gets for nothing." What Einstein said is embedded with deeper meaning.

The PM's anguish emanates from the serious consequences of this malaise. Nothing undercuts more irresponsibly India's abiding international and national commitments than the perils of this reckless populism. Consider the following:

First and foremost, is the issue of upsetting India's quest for sustainable development. The initiatives undertaken at COP21 in Paris, the International Solar Alliance and subsequently at the COP26 in Glasgow represent India's national consensus to forge a path of growth geared towards intergenerational equity and to exponentially increase development. Our ability to adhere to this commitment inter alia is predicated on two other commitments.

To begin with, an increase in the percentage of renewable energy in our energy consumption. While subsidies are being promised in one form or the other by way of free electricity, the deteriorating health of state distribution companies seriously undercuts their financial viability. Isn't it somewhat ironic that while free power sometimes becomes universal, then optional, then a halfway house through surcharges, these promises are only valid till incumbents face fiscal constraints and are forced to withdraw benefits? The Delhi government's decision to make the electricity subsidy optional was largely due to rising costs. In Punjab, as pointed out by the RBI, the free power promised undercuts its ability to move to a more sustainable pattern of growth. Lowering the price for some consumers, offset through overcharging industrial and commercial contracts, reduces competitiveness, ushers slower growth both in incomes and employment.

Equally, the inability of discoms to actively encourage solar power is stymied by their financial condition and the inability to evolve tariff structures. India's inability to meet an orderly and socially-cohesive transition to an era of non-fossil fuel energy critically depends on the health of state electricity boards, which is undercut by the freebie culture. Regulatory capture, a fixation on unrealistic tariffs and cross-subsidy in energy utilisation prevent a credible coal plan, which is central to our energy planning. Therefore, it is not how cheap the freebies are, but how expensive they are for the economy, life quality and social cohesion in the long run.

Second, the Modi government seeks to address the challenge of inequity by ensuring access to a wide range of basic facilities. These include banking, electricity, housing, insurance, water and clean cooking fuel, to mention a few. Removing this inequity to access helps boost the productivity of our population.

Third, the issue of access. Benefits under various welfare schemes such as PM Awas Yojana, Swachh Bharat Mission and Jal Jeevan Mission have eliminated the biggest barrier for citizens — the exorbitant upfront cost of access. Moreover, they are leading to irreversible empowerment and self-reliance. For instance, a house built under the PM Awas Yojana is a lifelong asset for the beneficiary household that cannot be taken back by any government.

Fourth is the use of technology in direct transfer benefits. Identification of beneficiaries through the SECC and prioritisation based on deprivation criteria has enabled the government to assist those who need it the most. Governments that end up taking the shortcut of universal subsidies or freebies often end up ignoring the poor and transferring public resources to the affluent. In Delhi, innumerable households from the lower strata continue to remain dependent on expensive tankers for water due to a lack of water connections and the Delhi Jal Board's limited supply. The free water policy has no value for these households.

Fifth is the issue of expenditure prioritisation being distorted away from growth-enhancing items, leading to intergenerational inequity. The science and economics of intergenerational debt swap are at best in a nascent phase. This is true also of changes in governments between states and nations. Illustratively, one state cannot pass on its debts to another state, nor can a nation pass on its debts to another nation. Investors, both domestic and foreign, and credit rating agencies look to macro stability in terms of sustainable levels of debt and fiscal deficit. One of the biggest achievements of the Modi government is that after years of fiscal profligacy, we returned to the path of fiscal rectitude in 2014. Ironically, it seems the last time such an effort was made was also by an NDA government, which enacted the first FRBM Act on August 26, 2003, while this government only re-emphasised the need to address this issue.

Sixth is the debilitating effect of freebies on the future of manufacturing and employment. Freebies lower the quality and competitiveness of the manufacturing sector by detracting from efficient and competitive infrastructure. They stymie growth and, therefore, gainful employment because there is no substitute for growth if we wish to increase employment.

The PM's recent remarks about the perils of freebie culture should serve as a timely reminder to those promising fiscally imprudent and unsustainable subsidies. His opposition to this culture should not be misconstrued as an objection to extending state support to citizens, especially the lower strata. Rather, PM Modi has demonstrated a successful model of welfare provisioning and governance that provides balanced development without creating avoidable fiscal constraints. It was Aristotle who said, "the worst form of inequality is to try to make unequal things equal." The freebie culture is not a road to prosperity, but a quick passport to fiscal disaster. https://indianexpress.com/article/opinion/columns/pm-modis-remarks-on-revdi-culture-should-be-heeded-by-those-promising-imprudent-unsustainable-subsidies-8055674/

12. Grants to states may be linked to reining in of freebies: NK Singh *(financialexpress.com)* July 28, 2022

With the Supreme Court expressing serious concerns about "the culture of freebies ahead of elections", NK Singh, who headed the 15th Finance Commission (FC), told FE that while tax devolution is states' inalienable right, the FC could be one of the institutional mechanisms to regulate spending on freebies, which destroy the foundation of macroeconomic stability.

He said the revenue deficit grants to states, for instance, could be linked to curbing of freebies and off-budget liabilities.

The Finance Commission, which ceases to exist after submitting its report, can also be made a permanent body or an inter-government body consisting of the Centre and states, tasked to change the commission's grants award periodically after assessing each state's fiscal performance, Singh said. The commission's awards, which are usually for five years, can also be turned into annual grants, he added. These provisions will require amendments to relevant central and state laws.

In its final report in November 2020, the 15th FC allocated Rs 2.95 trillion to 17 states to eliminate their revenue deficit between FY21 and FY26. Accordingly, it awarded fiscally stressed West Bengal Rs 40,115 crore, followed by Kerala at Rs 37,814 crore, Himachal Pradesh at Rs 37,199 crore, Andhra Pradesh at Rs 30,497 crore, Uttarakhand at Rs 28,147 crore and Punjab at Rs 25,968 crore.

"The 15th FC gave a significant amount of grants to Punjab on the commitment that it will repair its debt profile and it will follow a policy to restructure the free electricity scheme. There were a few other states with similar problems. But once the commission goes, there has to be an inter-government body to monitor such issues," Singh said. The new Punjab government has announced freebies including free electricity to each household, which might cost around Rs 17,000 crore/annum or 3% of the state's GDP.

Hearing a public interest litigation, the Supreme Court on Tuesday asked the Centre to involve the Finance Commission on the issue of political parties inducing voters through freebies.

Former additional solicitor-general KV Viswanathan said, “The Election Commission and the Law Commission should also be involved (n the mechanism to regulate freebies). Freebies which are unenforceable promises, undermine democracy and mislead the gullible voter. Even when implemented, often they are in disregard of the Fiscal Responsibility and Budget Management Act, 2003.”

Constitutional expert Arvind Datar said that more than the Finance Commission, the Election Commission should look into the issue of such corrupt practices. “One can distribute essential commodities like items rice, flour to the needy but distribution of televisions, gold chains, laptops to individuals would not amount to public purpose and would lead only to the creation of private assets,” Datar said.

The Finance Commission’s award consist of two main categories: Tax devolution is made to states from the divisible pool of the central taxes under Article 280 of the Constitution and no condition can be attached to its release. Whereas the other component is grants including revenue deficit grants that are paid out of the Consolidated Fund of India under Article 275 of the Constitution.

“The sovereign has a right to impose conditions because grants are not entitlement, they are discretionary. A discretion, therefore, must be done annually to ensure compliance of a mechanism which can regulate freebies,” Singh said.

The 15th FC has suggested that the FRBM Act needs a major restructuring and recommended that the time-table for defining and achieving debt sustainability may be examined by a High-powered Inter-governmental Group. It also said that the Union and state governments amend their FRBM Acts, based on the recommendations of the group, so as to ensure that their legislations are consistent with the fiscal sustainability framework put in place.

The Fiscal Responsibility and Budget Management panel, which submitted its report in January 2017, had suggested that an independent Fiscal Council be set up consisting of experts to advise and assess the fiscal policy. Besides the Singh-led 15th FC, the 14th FC and the 13th FC had also recommended such a body. However, it has so far not found favour with the Centre.

“The governments need to declare their public debt every six months to the Assembly and Parliament. It is high time a federal fiscal council was set up, with mandate to look into the states’ expenditures regularly,” said NR Bhanumurthy, vice-chancellor of Bengaluru Dr BR Ambedkar School of Economics University. A mechanism needs to be developed to measure outcomes of the revenue expenditures like subsidies as not all subsidies are demerit, he added.

The most indebted states are expected to remain stressed for the next five years, the Reserve Bank of India said in a report recently. Debt-GSDP of Punjab was the highest at 53.3% in FY22RE, followed by Rajasthan at 39.5%, Bihar (38.6%), Kerala (37%) and West Bengal (34.4%). The general government debt to GDP is estimated to be 85-90% of GDP in FY22, as against a prudential level of 60% (40% Centre and 20% aggregate for states).

“The RBI can also play an important role in tandem with the Fiscal Council of India (if set up) as state development loans are raised through its mechanism,” Singh said.

Recently, the Centre tightened borrowing norms for the states by including off-Budget liabilities as part of the states’ annual net borrowing ceiling, which resulted in some states losing a portion of their quota for FY23, as the Centre adjusted a portion of such off-balance sheet debt in this fiscal’s limit. https://www.financialexpress.com/economy/grants-to-states-may-be-linked-to-reining-in-of-freebies-nk-singh/2608676/

13. HAL signs $100-mn contract with US firm for trainer aircraft engines *(hindustantimes.com)* July 27, 2022

The Hindustan Aeronautics Ltd on Wednesday signed a $100-million contract with the US-based Honeywell for 88 engines to power the indigenous HTT-40 basis trainer aircraft, even as the state-owned plane manufacturer eyes a contract from the Indian Air Force for such aircraft, officials familiar with the matter said.

“HAL has successfully developed the basic trainer aircraft (HTT-40) to address the training requirements of IAF. There is a potential requirement of 70 aircraft. The contract with IAF for the same is in an advanced stage of approval,” chairman R Madhavan said.

The central government has imposed a phased ban on the import of 310 different types of weapons and systems to boost self-reliance in the defence manufacturing sector, and basic trainers feature on that list.

Rookie pilots in the IAF go through a three-stage training process involving the Pilatus PC-7 MkII basic trainers, Surya Kiran trainers and finally the British-origin Hawk advanced jet trainers before they can fly fighter jets.

In August 2020, the defence ministry gave a go-ahead for the purchase of indigenous basic trainer aircraft for IAF to provide a push to the government’s Atmanirbhar Bharat’ (self-reliant India) vision.

The defence acquisition council (DAC) accorded its acceptance of necessity (AoN) to buy 106 HTT-40 aircraft from HAL. Under India’s defence procurement rules, an AoN by the council is the first step towards buying military hardware. The IAF plans to order the basic trainers in two batches – 70 and 36, the officials said.

The HTT-40 aircraft has undergone a string of elaborate tests at HAL to demonstrate that it is safe for rookie pilots and meets the IAF’s exacting standards for trainer planes. https://www.hindustantimes.com/india-news/hal-signs-100-mn-contract-with-us-firm-for-trainer-aircraft-engines-101658932288540-amp.html

14. Army’s quest for close-quarter battle carbines continues. Here are its options *(theprint.in)* July 28, 2022

The Army’s quest for close quarter battle (CQB) carbines — a project initiated in 2008 — got a fresh lease of life this week after the defence ministry gave its nod to the plan to induct approximately four lakh of these weapons.

The Ministry of Defence said in a statement Tuesday that this project would provide a major impetus to the small arms manufacturing industry in India and enhance “atmanirbharta” (self-sufficiency) in small arms.

It added that the Acceptance of Necessity (AoN) has been given to this project to combat the “current complex paradigm of conventional and hybrid warfare and counter-terrorism at the borders”.

An AoN is the first step in any defence procurement process.

While the defence minister remains tight-lipped on whether the procurement will be through the ‘Buy Indian’ category or through the Indigenously Designed, Developed and Manufactured (IDDM) route, sources in the defence and security establishment told ThePrint that it would be through the former.

Procuring through the Buy Indian category will mean that several foreign companies who either have or will have joint ventures with Indian firms will be participating.

Under IDDM, the competition would have been between only three firms, out of which only one would have been a private firm.

Sources also said that the likely calibre requirement will be the 5.56×56 NATO, and not the 5.56×56 INSAS. While the former is the one used globally, the latter is a slightly different calibre used by India for its INSAS series of rifles, which will be replaced by the AK 203.

It is also learnt that the weight requirement of the carbines is likely to be a maximum 3.2 kg.

Companies that will be taking part

Defence sources said the exact companies that will bid for the project will depend on what the Request for Proposal (RFP), or tender, says.

Sources said that the finer details are yet to be worked out, and it’s still unknown if participating companies will have to showcase a weapon that has been manufactured in India during the trial.

An industry source said: “This would be unfair if foreign companies who have not invested in India are able to showcase weapons that they have. There are foreign companies that have invested in India already and are either manufacturing locally or in the process”.

Defence sources said that the main companies in contention will be Bengaluru-based private defence firm SSS Defence, PLR of the Adani Group, the Ordnance Factory Board (OFB), Kalyani Group — which has a tie-up with French firm Thales but is also in talks with the Defence Research and Development Organisation (DRDO) — the Jindal Group, which has tied up with a Brazilian firm called Taurus, and Neco Desert Tech, a joint venture between Indian and American firms.

However, if the deal is opened up to non-locally manufactured carbines, then more companies will participate on the condition that they will set up a manufacturing base in India if they bag the contract.

Sources said that SSS Defence would be offering its indigenously built M 72 Carbine while PLR is likely to present its Galil Ace.

PLR has tied up with Israel Weapon Industries (IWI) and is already manufacturing various small arms in India.

Sources said that the Kalyani Group is likely to tie up with DRDO for the project, while OFB will be offering its own product.

If the competition opens up, the UAE's state-owned firm Caracal, which had emerged as the lowest bidder for a now-junked fast-track procurement (FTP), will also throw in its hat. While the firm was initially in talks with Reliance Defence for a tie-up, the deal did not go through, according to sources.

The Army's carbines saga

The Army has been trying to acquire the CQB carbines since 2008 to replace its outdated and ageing 9mm British Sterling 1A1 submachine guns that are in service.

Both state-owned DRDO and OFB had failed to meet the Army's requirements back then, and a global tender for procurement of 44,618 CQB Carbines was issued in 2011.

While four companies — Israel's IWI, Italian Beretta, and American firms Colt and Sig Sauer — participated, only IWI qualified as the other contenders could not meet the qualitative requirements pertaining to the night vision mounting system.

But the defence ministry did not go ahead with IWI because it had become a single vendor case, which, according to the government's procurement manual, is not allowed.

In 2017, a global Request for Information (RFI) — a process initiated to gather information on what is available in the market — was issued for the purchase of 2 lakh carbines, while a separate process was rolled out to procure 93,895 under FTP.

It is estimated that the overall demand would be over 5 lakh if when taking into account the armed forces, the central armed police forces, and the state police forces.

Caracal had emerged as the lowest bidder but the contract for its CAR 816 had run into rough weather over a number of issues including costs and complaints from other bidders.

In 2020, ThePrint reported that the government had decided to scrap the project altogether. https://theprint.in/defence/armys-quest-for-close-quarter-battle-carbines-continues-here-are-its-options/1057569/

15. Centre's lion plan continues to ignore urgent imperative of relocating the animal out of Gir *(indianexpress.com)* Updated: July 28, 2022

In August 2020, the Centre launched a lion conservation programme along the lines of Project Tiger. Two months into its operation, the project identified six sites — two in Madhya Pradesh, three in Rajasthan and one in Gujarat — to relocate substantial numbers of Asiatic Lions from their current habitat in Gujarat's Gir National Park. These protected areas were in addition to Kuno Wildlife Sanctuary in MP which was earmarked as an alternative home for the animals in 1995. But the government's 25-year roadmap for Project Lion makes no mention of relocation. As reported by this paper, the plan to be launched on August 10 only focuses on "assisted natural dispersal" of the animal across Saurashtra and "potentially" to Rajasthan by 2047.

The Asiatic Lion once roamed the forests of north, central and eastern India. But since the early 20th century, its range has shrunk to the Gir forest. Protected area status for the forest since the 1960s resulted in reviving the species from the brink of extinction. But for nearly 30 years now, conservation experts have been arguing that lion numbers have exceeded Gir's carrying capacity — the animal is often spotted in villages and farms. They also argue that concentration of the species in one park makes it vulnerable to infectious diseases, such as the canine distemper outbreak that killed 1,000 African lions in Tanzania's Serengeti National Park in the early 1990s. But the Gujarat government has stubbornly resisted the move to relocate a pride of the animal to Kuno, often on grounds completely unrelated to conservation — in 2013, for instance, it described the animals "as family members who cannot be parted with". That year, the Supreme Court minced no words in rejecting the state's appeal. "The cardinal issue is not whether the Asian lion is a family member, but the preservation of an endangered species," it said and directed Gujarat to relocate the lions in six months. But Gujarat continued to drag its feet over the matter, even as canine distemper outbreaks have taken a regular toll of Gir's lion population since 2018.

The conservation story has acquired another unscientific twist in the last two weeks. Kuno is making plans to welcome cheetahs from Namibia. The argument of the MP conservation authorities that the introduction of the top predator will improve the park's health is well taken. But as an analysis by this paper showed, Kuno's cheetah population will not be viable even in 40 years. Experts believe the Gir lions would have been far more effective in the role assigned to the cheetahs. Conservation authorities need to do some rethinking on big cats. https://indianexpress.com/article/opinion/editorials/centre-lion-plan-continues-to-ignore-urgent-imperative-of-relocating-the-animal-out-of-gir-8055695/