NEWS ITEMS ON CAG/ AUDIT REPORTS (30.09.2022)

1. Are auctions really the answer? *(financialexpress.com)* September 30, 2022

The aftermath of the 2008 2G auctions leave little room for methods other than telecom auctions. However, such a decision could practically establish auctions as a de-facto norm to distribute national resources, which can have serious public policy drawbacks

The draft telecom Bill has proposed to make auctions the only path for telecom spectrum allocation. Prima facie, the government's faith in auction appears reasonable. With three strong private players (Jio, Bharti, Vi), one public sector operator (BSNL), and a newbie (Adani), the Indian telecom sector fits the description of a mature competitive market, which features 3-4 dominant players and a few niche specialists. The aftermath of the controversial 2008 2G auctions leaves very little political space for the use of any other method. While the draft talks only about spectrum, given the political scenario, such a decision could practically establish auctions as a de facto norm to distribute national resources. This can have serious public policy drawbacks.

The judiciary has been conscious of this and therefore has consistently refused to give auction a constitutional mandate. Article 39(B) of the Constitution enjoins government to ensure that ownership and control of the community are so distributed as to subserve the common good. In the Presidential reference case in the 2G matter, it was argued that since revenue maximisation is the only way to achieve common good, auctions should automatically become a constitutional principle. Dismissing the argument, the Supreme Court refused to acknowledge it as the only way. In its various judgments, the apex court has held that it is erroneous to construe auctions as the only way to ensure equality. This means that for the disbursal of natural resources, the government should not take arbitrary and unfair actions, but the judiciary cannot command that to ensure equality of opportunity under Article 14, the government should only resort to auctions.

One could argue that times of vicious political diatribes and the shadow that the figure of Rs 1.76 trillion (the presumptive loss described by CAG in 2008 2G spectrum allocation) continues to cast over our minds leaves the government with no options. But in the 2008 allocations, the rot was not restricted to the alleged presumptive loss. The bigger problem was the arbitrary and opaque process adapted to issue the licenses. Subsequent developments, especially when companies that had won the licenses issued equity to their investors at a huge premium, gave credence to suspicions that 2G was allotted at throwaway prices. It was in this context that the Supreme Court, while cancelling these allocations, described auctions as the best way to transfer natural resources, but subsequently held that this judgment was case-specific and was not to be read as a statute. The apex court held that it is not the potential of abuse but the actual abuse which is problematic and should be brought before the court, and it was not the judiciary's business to assign auctions or any other economic policy as a constitutional mandate.

These judgments are in consonance with the evolving jurisprudence, where the theory of Eminent Domain (giving absolute powers to government on property) is considered at odds with Doctrine of Public Trust, which imposes a positive obligation on government with regard to the environment and rights of indigenous communities. For instance, during a mining allocation, the highest bidder may not necessarily be the best option, and societal interest may warrant consideration of factors such as a past record in environmental sensitivity, employing locals, etc. Similarly, instead of auctions, a local government may ask for a share in profits so that the surplus can be channeled back towards community betterment and replenishment.

The methodology used by the Indian government for spectrum allocation since 2010 is Simultaneous Multi-Round Auction, as devised by economists Robert Wilson and Paul Milgrom. Known to remove the deficiencies of the traditional English and Dutch auctions, as well the Vickrey Auction that was in vogue in 1970s and 80s, this method is today renowned for its ability to maximise revenue. Milgrom and Wilson winning the Economics Nobel Prize in 2020 has added to its credibility.

While the efficacy in terms of revenue garnering has been proven in developed markets, there are concerns about whether such a method is always suitable in underdeveloped markets. The lackadaisical response in some of earlier spectrum auctions in 3G and 4G rounds in India, the failure of telecom auctions in several African nations, are cited as instances of imperfections in this system. There are doubts about the right price discovery, as evidenced in the case of high prices paid by certain telecom operators for some frequencies— these expensive winning bids are often correlated to financial distress in Indian telecom. Also, there are apprehensions that in the absence of strong antitrust regulatory mechanisms, auctions are detrimental to competition, can promote oligopsony setups, where a small number of large, powerful buyers collude to keep fresh competition away and affect prices to their advantage.

A deficit-ridden government may have found it convenient to exalt revenue-maximising auctions as the mandated way for disbursal of spectrum, but in doing so, they may have set up a restrictive precedent for other sectors and governments that may not always be in the best interest of competition and citizenry. https://www.financialexpress.com/opinion/are-auctions-really-the-answer/2695819/

2. Green accounting: Valuing our common future *(orfonline.org)* 29 Sep 2022

Incorporating environmental economic accounting can go a long way in achieving net-zero emission targets.

Ecologists and environmental economists scorn how superficially countries maintain their financial and national accounts. Amounts spent on building human skills, providing education, nutrition, and safeguarding health, land, air and water quality or forests are classified as consumption expenditure in the national accounts, except for the associated construction and equipment purchased. Budgetary allocations in India for such social support lag behind those in comparative economies. We view such expenditure as peripheral to economic growth versus physical infrastructure, contrary to what environmental economic accounting would suggest, that these are investments for safeguarding human and other natural capital.

National accounts measure output by assessing income generation. Environmental economic accounts measure output as the change in natural capital (as distinct from physical capital- buildings, roads, machinery- all of which degrade natural capital). The flaw in the national accounts' approach of focusing on the output generated from capital is that it does not have a "sustainability" check.

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Environmental economists instead deduct the value of natural capital degraded in the process of generating income from the annual output, to assess whether economic growth is negative or positive. Negative growth is unsustainable because it borrows from the future to enjoy income today—a Ponzi scheme which cannot be played endlessly—akin to a country accumulating debt without building the capacity to repay it.

The flawed logic of substitutability and an infinite supply of natural resources

The logic of not accounting for the stock of natural resources in the United Nations Statistical Commissions' (UNSC) approved system of national accounts, followed worldwide, is simply that natural resources were, till very recently, presumed to be inexhaustible and in specific cases even substitutable. Wood can be replaced by limestone-based cement and iron for building houses. Coal is replaceable with petroleum oil, natural gas, biofuels, or newer forms of renewable energy for our energy services. Consequently, there was never a pressing need to place a value on the stock of natural wealth or biodiversity. Nature was assumed to be so richly endowed that the scarcity of one resource or species could be filled by another species "waiting in the wings" to take over and technology could facilitate the substitution.

Ecologists and environmental economists reject the assumption of infinite substitutability of natural resources as based on less than adequate knowledge of how nature works. They view the stock of natural resources as the outcome of innumerable complementary processes between specific resources, linking them together organically. Extracting a part of the whole, could disturb the equilibrium and send a stable ecosystem over the "tipping point"—a phrase we are now familiar with since the impact of cumulative carbon emissions on global warming and climate has become the subject of close scientific scrutiny. Sadly, unravelling the functioning of the ecosystem remains a work in progress. However, only the brave would outright reject the proposition that nature needs to be handled with care.

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Recognising the need to make economic accounting environment-sensitive, the UNSC formulated the System of Environmental Economic Accounts (SEEA) in 2012. "The SEEA (central framework) applies the accounting concepts, structures, rules, and principles of the SNA to environmental information. Consequently, it allows for the integration of environmental information (often measured in physical terms) with economic information (often measured in monetary terms) in a single framework”.

Multilateral exuberance post-1990

The early 1990s were full of promise. The collapse of the erstwhile Soviet Union in 1989 generated a gush of expectations that fractured global segments could integrate into a networked market, producing benefits all around. In the 1980s, spectacular economic success from integrating China into the global economy evidenced that this enthusiasm was not misplaced. The world seemed set on converging into an “international rules-based order” managed through multilateral consensus. This rush for multilateral solutions to vexing problems was evident in the 1992 Earth Summit at Rio de Janeiro, which initiated the Framework Convention on Climate Change, thereby institutionalising one of the substantive international agreements on global environmental management.

The 2015 Conference of Parties meeting in Paris set nations on the path of voluntarily committing to decarbonisation pathways. National decarbonisation commitments have since become routine even for developing economies. India, for instance, voluntarily enhanced commitments in 2021 at the Glasgow COP over its 2015 commitments at Paris, and committed to net zero by 2070, versus China and Indonesia’s commitment of becoming net zero before 2060, whilst the advanced economies clustered around 2050 for achieving that target. Net-zero targets by 70 countries now cover 76 percent of the carbon emissions.

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However, more needs to be done. A minimum 45 percent reduction in carbon emissions is needed over the global 2010 emissions level by 2030, to achieve net zero by 2050. Instead, the national commitments of the 193 countries to the Paris Agreement aggregate to an estimated 14 percent increase in carbon emissions by 2030.

A tentative green foot forward

President Biden instructed the federal government on Earth Day (22 April 2022) to take the lead in preserving biodiversity and old forests at home. The Director of the Office for Management of the Budget is to issue guidance on “the valuation of [the] ecosystem and environmental services and natural assets in federal regulatory decision-making”, the plan is that natural capital accounting-based metrics measure progress over time and that the federal government works with the international community to advance implementation over a 15-year phased period.

The European Union (EU) made it mandatory in 2013 to compile air emission accounts, environmental taxes and subsidies, and material flow accounts. In 2017, the mandate was extended to transmit to Eurostat environmental goods and sector services accounts. The EU is pursuing an active environmental strategy imposing carbon taxes on carbon-intensive imported goods such as steel and aluminium from 2026. During the transition phase 2023-25, importers must report the levels of carbon in the products they import and buy an import entitlement valued at the price determined by the EU carbon market. The idea is to level the field for EU producers of such goods. Carbon taxes paid overseas on such imports can be netted out, thereby, incentivising domestic carbon tax in exporting countries.

The EU is pursuing an active environmental strategy imposing carbon taxes on carbon-intensive imported goods such as steel and aluminium from 2026.

The market price of carbon in the EU increased significantly, topping 97 euros per tonne of carbon in 2022. Compare this with the long spell of stagnation—2009 to 2018—when the price remained below 20 euros per tonne and below 10 euros a tonne from 2011 to 2017. Janet Yellen, Treasury Secretary of the US called for the EU to recognise that many jurisdictions use methods other than carbon price to control carbon emissions and allowances should be made for those regulations too.

India—A graduated approach to green accounting

In India, the Central Statistical Organisation (CSO) leads in embedding environmental economic valuations into natural capital stocks and services. Following the 1992 Earth Summit, CSO produced a Framework for the Development of Environmental Statistics (FDES). A Compendium of Environmental Statistics was released in 1997 and updated periodically. The Ministry of Statistics and Plan Implementation commissioned a set of studies between 2000 to 2006 assessing and valuing land, forests, air, water, and subsoil resources.

An expert group chaired by Dr Patho Dasgupta released a report “Green National Accounts in India” in 2013, which proposed a framework, aligned with the SEEA framework. The CSO released physical accounts for four resources—land, water, minor minerals, and forests in 2018. EnviStats India 2019 added a quality index for two resources—soil and water and valued two services—cropland ecosystem services and natural resource-based tourism services.

Developed countries had allocated, on average, five full-time staff, illustrating marginal but consistent commitment to green accounting.

The task of making government financial accounting systems compatible with environmental economic accounting is being led by the Government Accounting Standards Advisory Board (GASAB) under the Comptroller and Auditor General, which published a Concept Paper on “Natural Resource Accounting in India” in June 2020. There has been significant activity, since the 1990s, around natural resource accounting. However, we are nowhere near integrating environmental accounts into national accounts.

Miles to go

A 2020 UNSC global survey of implementation of environmental-economic accounting found that 89 countries had compiled at least one account in the last five years—up from just 54 in 2014—whilst 62 countries are doing so regularly. One way of checking governments' commitment to a programme is to assess the resources being made available for it. In 2020, on average, governments had allocated only 3.7 full-time staff for environmental-economic accounting. Developed countries had allocated, on average, five full-time staff, illustrating marginal but consistent commitment to green accounting.

Nevertheless, environmental economic accounting at the ecosystem level (SEEA EA) is already crucial for sector decision-making—best illustrated by the case of carbon emissions. Achieving the 2030 global target of reducing carbon emissions to 45 percent below the 2010 level is one way to make governments, the private sector, and citizens believe that environmental economic accounting is a useful tool. After all, only that which gets measured gets done. https://www.orfonline.org/expert-speak/green-accounting-valuing-our-common-future/

STATES NEWS ITEMS

3. Excavated Findings at Rare Buddhist Site in Karnataka at the Mercy of Nature Even after Two Decades, Reveals CAG Report *(swarajyamag.com)* Sep 30, 2022

The follow up report of the CAG on the Performance Audit of Preservation and Conservation of Monuments and Antiquities of Union Government, Ministry of Culture reveals that the woes of the excavated site of Kanaganahalli in Karnataka still remained unattended to.

As the report explains, excavations carried out at the site by ASI (between 1994-2001) had revealed remains of a unique Mahastupa, pre-historic artefacts, structural remains and ancient vestiges dating back to first century BCE72.

The site that comes under the Dharwad circle is a rare and important Buddhist site.

After the CAG pointed out the shortcomings in conservation and protection of the site, the ASI had informed that it had taken various steps including construction of temporary sheds for excavated panels, their chemical preservation works and creation of a Committee (in July 2020) to suggest suitable measures for the preservation and conservation of the excavated site.

But the follow up report that is based on the joint physical inspection carried out at the site shows that the concerns expressed two decades ago still remain. As per the report:

-Even after 20 years of excavation and reporting by audit, the panels and other remains of the site were lying scattered in open, subject to vagaries of nature.

-Walls of the closed sculpture shed created for preservation of Buddha idol had developed big cracks. Cement beds created at the open shed for placing artefacts had cracked.

-The site spread over an area of 23 acres was covered with thick vegetation and grass posing fire threat to the artefacts.

-The CCTV camera installed at the site was not functional while the lighting system was not adequate.

Faulty repair works at the Buddhist site in Kanaganahalli. (CAG)

Scattered panels at the site.

Backstory:
In 1993-94, Government of Karnataka approached Bengaluru Circle of the ASI for archaeological clearance for construction of a dam at Bhima river at Sannati.

During exploration for this purpose, several pre-historic artefacts, structural remains and ancient vestiges were noticed in the area.

After extensive excavations by the ASI during 1996-2002 the remains of a unique Mahastupa (Great Stupa) were discovered at Sannati, near Kanaganahalli.

The site was acclaimed as a rare Buddhist site by the experts and notified as a protected one. It was also said to be home to a unique panel with a labeled sculptural frieze of King Ashoka, which is the only one of its type in the world.

A Decade Later:
In 2013, the CAG audit report said that despite an expenditure of Rs 1.42 crore, the excavated parts of the Stupa and the panels were lying scattered in the open.

Water had accumulated in many parts and black patches had appeared on the panels. Some panels were covered with plastic sheets to prevent rain water but moisture had damaged the panels.

Despite instructions for the provision of temporary shelters by the DG, ASI in 2012, only a cloth shed had been provided even in December 2012. The report had also highlighted the neglect and carelessness with which activities on the site were being carried out.

“An unsuccessful mending work was carried out on the panels by using non- magnetic steel rod and epoxy resins, without proper testing. The Ashoka Panel was repaired by the ASI leaving it damaged” said the report in 2013.

It highlighted that the inventory of the parts was unavailable at the site.

It also pointed out that while making replicas of some panels in 2012, the ASI had used fibre glass as mould instead of softer alternatives like latex which left glass pieces stuck in the curves of the friezes.

Attempts by ASI officials to remove them using chemicals followed by oil had left the limestone panels discolored and damaged.

Two Decades Years Later:
The August 2022 report concludes that issues connected with exploration and excavation activities viz. non-existence of action plan, absence of centralised information and monitoring mechanism for excavation activities, delay in report writing work, insufficient budget allocation etc. as pointed out in previous report have not been resolved.

Although it adds that the Ministry of Culture had stated in January 2022 that the conservation of the excavated remains of Kanaganahalli and providing shelters/shifting to the nearest building will be its priority in the coming financial year 2022-23. https://swarajyamag.com/culture/excavated-findings-at-rare-buddhist-site-in-karnataka-at-the-mercy-of-nature-even-after-two-decades-reveals-cag-report

4. ED's Probe on Masala Bonds Affecting Infrastructure Development Plans in Kerala: KIIFB to High Court *(livelaw.in)* 30 September 2022

The Kerala Infrastructure Investment Fund Board (KIIFB) has told the High Court that the Enforcement Directorate's protracted investigation into the issuance of Masala bonds is detrimentally affecting infrastructure development plans in the state.

The submission is part of a rejoinder filed by the KIIFB in response to a counter affidavit of the central agency. ED is probing the alleged violations of Foreign Exchange Management Act (FEMA) in issuance of Masala Bonds in 2019. KIIFB had challenged the summons issued by Enforcement Directorate.

In the Rejoinder Affidavit moved through Advocates B.G. Harindranath, Amith Krishnan, Sutapa Jana, and Gopikrishnan M, the KIIFB said the ED investigation is without any reasonable suspicion.

Responding to ED's submission that the probe has been initiated on the basis of a report submitted by the Comptroller and Auditor General (CAG) in March 2019, KIIFB has said same is impermissible in law and the entire investigation deserves to be set aside on this ground alone.

"The CAG Report is subject to scrutiny by Parliament/Legislature of the State and the Central/State Government can always offer its views on the report of the CAG or even in certain situations reject the same," the board said in the rejoinder.

The allegations in the CAG report "are incorrect" and a mere afterthought and could not be made basis for the investigation, the KIFFB said further. "Kerala Legislative Assembly had rejected the said remarks pertaining to KIIFB in the Report of the CAG dated 19.01.2021," it has told the court

KIIFB has also said that the ED has been unable to make out any material reasons or suspicion for initiating the investigation. "...the present investigation is a roving inquiry which suffers from non-application of mind", it has submitted.

Alleging that the investigation has been going on for a prolonged period of time, the KIIFB has said the same has detrimentally affected the infrastructure development plans of the State and also "violated" the fundamental rights of the petitioner.

"Cumulatively, the Adjournments/Extensions sought by the Petitioners amount to merely 77 days, out of which 59 days were on account of reasons not within the control of the Petitioners herein. Furthermore, adjournments were sought by the Petitioners only for justifiable reasons alone," it has told the court.

KIIFB has also contended that the delay amounts to violation of the Foreign Exchange Management Act, 1999 (FEMA), and the Foreign Exchange Management (Adjudication Proceedings and Appeal) Rules, 2000, which impose strict timelines within which the the inquiry and the complaint filed ought to be adjudicated.

The board has also said that the "inordinate delay" in the investigation by the ED has detrimentally affected the borrowing plans of KIIFB and the execution of crucial infrastructure projects in the State. A total of 993 current infrastructure projects, four major projects proposed by the NHAI, and several other vital projects including the establishment of 4 Science Parks, 3 IT Parks, and 4 stretches of IT Corridor seem to be affected by the delay and protracted investigation, the KIIFB has claimed. It has also said that there now appears to be significant reluctance on the part of Financial Institutions to advance funds to it, which "is likely to bring all current operations of KIIFB to a halt.

"KIIFB has not been able to close a single term loan with any of its existing lending banks with which it has built very good business relationships this financial year. This inability to source additional funds, on account of the cloud of uncertainty caused by the present investigation, will lead to a financial crisis of unprecedented magnitude in the State," the board has said.

The court has also been told that while Masala Bonds had been issued by various PSUs, including the National Highways Authority of India, Indian Renewable Energy Development Agency Limited and National Thermal Power Corporation Limited, KIIFB alone has been singled out by the ED.

"In spite of the specific direction by the High Court of Kerala asking ED to specifically state in its Counter Affidavit as to whether the issuance of Masala Bonds by any other entity was being enquired into by it, the same has been left unanswered by it, further fortifying the contention that arbitrary treatment has been meted out to KIIFB," the rejoinder contends.

KIIFB has further submitted that it had issued Masala Bonds for Rs. 2,672.8 Crores under the extant RDB framework and that it had also appointed a reputed Authorised Dealer to advise, guide and assist it in the issuance of Masala Bonds.

The Authorised Dealer had not found any irregularities, and that the proceeds from Masala Bonds issued by KIIFB have only been used for the purposes of financing infrastructure projects within the State of Kerala as approved by KIIFB's Board, the government body has submitted to the court.

KIIFB has also been diligently reporting all actual ECB transactions through Form ECB2 on a monthly basis, adds the rejoinder.

The board has also denied any kind of non-cooperation on the part of the petitioners, and submitted that they have been cooperative since the start of the investigation. ED needs to complete the probe in a time-bound and fair manner, it has said. https://www.livelaw.in/news-updates/action-ed-conducting-investigation-issuance-masala-bonds-kiifb-without-reasonable-suspicion-illegal-kiifb-files-rejoinder-210633

5. CAG report detailing funds mismanagement in UP punctures BJP's good governance narrative *(nationalheraldindia.com)* 29 Sep 2022

The CAG report demolishes the propaganda of the Modi government at the Centre and the Yogi government in UP of the BJP providing efficient and corruption-free governance

The Compliance Audit Report of the Comptroller and Auditor General of India (CAG) has exposed numerous cases of irregularities and corruption in Uttar Pradesh on which the state government did not take prompt actions even when they were pointed out, exposing the complicity of the concerned government officials in the matter.

The total financial impact of the audit findings included in the report for the year which ended on March 31, 2020 is Rs 418.13 crore.

The report should be an eye opener for all those who are taken in by the propaganda of the Modi government at the Centre and the Yogi government in the state of efficient and corruption-free governance under the BJP.

Since Uttar Pradesh sends the largest number of MPs in the Lok Sabha, and the BJP has set a target to win 75 out of 80 seats, the revelation would be of the utmost importance for the people when it comes to vote on the basis of allegations and counter-allegations of irregularities and corruption in the present or past state governments led by the BJP and the Opposition parties such as the Samajwadi Party or the BSP.

The present audit compliance report covers as many as 16 departments of the state government along with 52 Public Sector Undertakings (PSUs) and 19 other entities, autonomous bodies or authorities etc, and hence gives a comprehensive idea as to what is happening under ‘Yogi Raj’ in the state and ‘Modi Raj’ at the Centre.

During the course of the audit, recoveries of Rs 197.17 crore were pointed out in seven cases in various departments and entities, and were accepted by them, but when it came to action, they made recovery of only Rs 26.73 crore in six cases.

The construction of a high-level Cancer Institute at Medicity, Lucknow at the cost of Rs 854.51 crore was also audited. The project was awarded to the executing agency, Uttar Pradesh Rajkiya Nirman Nigam Limited (UPRNN), in 2015 at the cost of Rs 797.76 crore. It also appointed an architect at a fee of 1.5 per cent of the sanctioned project cost, and a consultant at a fee of 1.5 per cent of the actual project cost.

The report pointed out that the estimated cost of the project was inflated by Rs 75.91 crore due to the adoption of rates without obtaining competitive rates from the market and the adoption of incorrect rates. As the bids were benchmarked against such inflated estimates and justification statement of rates was also not prepared, it resulted in extra expenditure of Rs 64.60 crore when compared to the actual procurement cost or correct or reasonable rates.

Then there was the irregular substitution of rates to be paid for various items of M-25 and M-30 grade concrete works after the award of work which resulted in an excess payment of Rs 4.02 crore.

UPRNN, in contravention to the provision of the agreement, did not recover any amount from the bills of the construction agency against expenditure incurred of project management consultant, resulting in excess payment of Rs 3.25 crore.

UPRNN did not even deduct the cost of bought out items from the project cost sanctioned by the government for the purpose of calculation of architect’s fee, resulting in the excess payment of Rs 1.49 crore.

It incurred an avoidable expenditure of Rs 2.3 crore because of excess procurement of one transformer, two DG sets and two voltage stabilizers due to incorrect application of power factor for the conversion of demand from KW to KVA.

Further, UPRNN earned an interest of Rs 36.68 crore on government funds during the period 2015-2021, but the same was not deposited in the treasury. It also recovered Rs 13.69 crore as interest on mobilisation advance from the construction agency but did not credit the amount to the government account.

The organisation also violated the orders of the state government as well as its own orders for e-tendering while awarding the work of creation and maintenance of social media platforms.

The Uttar Pradesh State Bridge Corporation Limited participated in the tender process without including GST in their bid price which led to denial of reimbursement of GST claims by the NHAI and the consequential loss of Rs 41.99 crore.

Failure in timely implementation of the National Toll Collection Programme deprived Utter Pradesh State Road Transport Corporation (UPSRTC) of cashback of Rs 14.18 crore on the payment of tolls and led to an avoidable loss to the same extent.

UPSRTC made inadmissible and excess payments of Rs 69.84 crore to a private firm in violation of the conditions of the agreement in implementation of a project of ITMS.

The audit of 'Procurement and Management of Transformers by DISCOMs' revealed that contracts to the tune of Rs 44.65 crore were awarded during 2016-17 to 2018-19 to the firms not fulfilling the pre-qualifying conditions. The DISCOMs even failed to enforce price fall back clause which led to an extra expenditure of Rs 1.37 crore.

After debarring a firm for failure of the sample in the quality test, PuVVNL received the supply of 2,429 transformers of 25 KVA valuing Rs 11.19 crore from the firm in violation of tender conditions.

The actual failure rate of distribution transformers installed by the DISCOMs MVVNL, PuVVNL, DVVNL and PVVNL were 20.27, 16.14, 13.92, and 13.28 per cent respectively in the year 2018-19, which was much higher than the norm of two per cent.

There was also short recovery of copper and aluminium from the damaged transformers which was about 72,230 kg and 6,19,497 kg respectively, which resulted in the loss of Rs 8.22 crore for the DISCOMs. Similar is the case with transformer oil, the short recovery of with resulted in a loss of Rs 10.42 crore.

Dakshinanchal Vidyut Vitran Nigam Limited (DVVNL) short recovered regulatory surcharge by Rs 79.90 crore from a distribution franchisee and also suffered loss of interest of Rs 29.97 crore. It failed to ascertain the correct price variation for the extended delivery schedule of distribution transformers which led to excess payment of Rs 2.03 crore to the suppliers.

It did inflated assessment of requirement which led to unwarranted procurement of SMC boxes with a consequential loss of Rs 2.12 crore.

Madhyanchal Vidyut Vitran Nigam Limited (MVVNL) procured SMC boxes valuing Rs 7.25 crore which remained unutilised for over four years.

Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) made avoidable payment of interest of Rs 6.41 crore with a consequential loss to the same extent, due to incorrect estimation of taxable profit.

The state forest divisions made fraudulent payment of Rs 1.37 crore, involving 1,058 payment, mentioning even false registration number of vehicles.

Uttar Pradesh Expressways Industrial Development Authority made excess payment of Rs 3.65 crore on sale deeds at higher rates than approved land rates in Kannauj District.

The Yamuna Expressway Industrial Development Authority made payment of Rs 2.71 crore for the area of land which was not even available on record. https://www.nationalheraldindia.com/opinion/cag-report-reveals-massive-corruption-and-mismanagement-of-funds-in-yogi-ruled-up

6. Infrastructure projects created for fishermen welfare lying idle *(thehindu.com)* 30 September 2022

Fishermen feel the money could have been utilised for enhancing the livelihood of fishermen in a better way. The government could have used it to provide necessary fishing equipment and safety gadget for the fishermen

PUDUCHERRY: Two projects — an ice plant and Effluent Treatment Plant — set up at Thengaithittu remain unused for years even after completion of work. Both the projects were taken up almost 10 years ago by the Project Implementation Agency as an effort to enhance the livelihood means of fishermen.

The ice plant was constructed by PIA under Emergency Tsunami Reconstruction Project at a cost of around ₹5.5 crore. The production capacity of the plant was projected at 50 tonnes per day. After completion of work, the plant was handed over to the Fisheries Department in 2015.

“The department once tried to operate the plant but the production could not be commenced due to technical issues. After that the plant remains idle,” Kadhirvan, a fisherman belonging to Veerampattinam hamlet said.

According to an official, the operations were shut after leakage of ammonia gas and low load in suction plant. The plant was never operated after 2017, said the official.

The ETP was constructed by PIA under Coastal Disaster Risk Reduction Project at a cost of around ₹ 3.5 crore. The plant was to treat the sullage generated at the fish auction halls at the Thengaithittu harbour.

Though the work was completed, the plant could not be operated as there was non-availability of minimum required sullage to operate the plant, sources said. The plant was constructed to treat around one million litres per day but the availability of sullage was only around 2,000 litres per day. The ETP has been idle for almost three years now, said an official.

“The money could have been utilised for enhancing the livelihood of fishermen in a better way. The government could have used the amount to provide necessary fishing equipment and safety gadget for the fishermen," said Elango, another fisherman from Vaithikuppam.

The CAG in its 2020 report has categorised the amount incurred for both the projects under the head of "unfruitful expenditure."

When contacted Director of Fisheries D. Balaji said steps have been taken to utilise the facilities at the earliest. "The government has initiated certain measures to restart both the projects. In two to three months, the ETP will be made functional," he said. https://www.thehindu.com/news/cities/puducherry/infrastructure-projects-created-for-fishermen-welfare-lying-idle/article65950959.ece

7. Freebie powers the AAP Govt in Delhi *(dailypioneer.com)* 30 September 2022

The State of Delhi stands out for all the ills plaguing the politics of freebies across the country, for many people have been deprived of basic amenities

To speak against distribution of freebies, of course, will attract the wrath of those who benefit from them. That is, if we say that electricity, water, travel should not be made free or that television sets or other types of temptations by political parties are wrong and they should end, then it is possible that people unaware of the possible consequences of announcements of such freebies may not like it.

After Independence, the emphasis has generally been on development, poverty alleviation, better social services, drinking water, road, rail, etc. But now some political parties have started making promises to provide electricity, water, transport, television sets and even mangalsutra, all for free, despite poor economic conditions of the states.

Result of such freebies is that states are coming under huge debts and the quality of public services is the major victim. Significantly, Delhi is a prosperous region of the country. The per capita income here is second highest in the country, after Goa. Due to this, the revenue of Delhi is also very high.

A large number of migrants also live in Delhi, who have migrated from other states in search of employment. Their economic conditions are not so good, which can be gauged from the fact that a large number of people had to leave for their villages, as soon as the lockdown was imposed due to the pandemic. The sight of a large number of migrants going on foot, on bicycle or in buses, with just one bag, still haunts us. Most of the migrant labourers are daily wage earners, or engaged in micro businesses. A large number of them live in horrible conditions, where even basic facilities are lacking.

In such a situation, there is usually no question of their families joining them. The number of such migrant labourers in Delhi is not less than 50 lakhs. The labourers who bring their families with them are living in very pathetic conditions in Delhi. Schools, colleges and other educational institutions are needed for them and their families.

There is also a need for a better sewerage system and good health facilities. Roads, flyovers, etc., are also needed for their movements. But all these works require huge expenditure. It is seen that due to lack of funds, Arvind Kejriwal's Aam Aadmi Party (AAP) government in Delhi is not able to provide a budget for development and maintenance.

After assuming power in 2015, till date the AAP-led Delhi government has not been able to build any new school, college, hospital, flyover, etc. In such a situation, the plight of the poor can be easily imagined. The roads, water and sewage system are also not being taken care of properly. Lack of finances is the main reason for this. It is not that the revenue of Delhi is deficient. The fact is that the per capita revenue in Delhi is much higher than the rest of India and is increasing continuously.

The total revenue of Delhi for 2021-22 is estimated at `53,070 crore, which is 3 per cent of the revenue of all the states. In 2019-20 it was `47,136 crore and in 2014-15, it was only `29,584 crore.

But along with this increasing revenue, the expenditure on free electricity, water, and transport of the Delhi government is increasing. The expenditure on free electricity was `1639 crore in 2015-16, which increased to `2968 crore in 2021-22. The Power Department has demanded `3200 crore from the Delhi government for this power subsidy for 2022-23. That is, it can be understood that the burden on the budget is increasing in the name of making electricity free by the Delhi government and it has almost doubled between 2015-16 and 2022-23. By huge spending on free electricity, water and transport, there is always a shortage of funds for essential civic amenities.

As a result of the exercise of Delhi Government towards reducing water bills to zero, both the deficit and debt of the Delhi Jal Board are mounting. In the first three years of the Kejriwal government, the loss of Delhi Jal Board tripled from `220.19 crores in 2015-16 to `663 crores in 2018-19.

According to the CAG report, in 1998-99, `26,620 crore was lent to the Delhi Jal Board, out of which only `351 crore was returned and till March 31, 2018, `26,269 crore was outstanding. Meanwhile, the Delhi government has given `41,000 crore as loan to Delhi Jal Board in the last five years. The deteriorating conditions of Delhi Jal Board can be gauged from the slow pace of its development works and poor water system. It is believed that the financial conditions of the Delhi Jal Board have become very bad due to the Delhi government and the free water policy.

Slow pace in water connection in unregulated colonies by Delhi Jal Board and poor conditions of sewer system is primarily because of poor financial health of Delhi Jal Board. The opposition parties have also been making allegations of alleged corruption in Delhi Jal Board.

Apart from this, free travel for women in Delhi Transport Corporation buses is yet another freebies scheme run by the Delhi government. Thousands of crores of rupees are lost by the government through freebies. It is natural that due to the limited resources, this freebies policy puts pressure on the government finances and many essential expenditures are sacrificed.

At present, the AAP, which is in power, promised in its election manifesto in the year 2015, about opening 20 new colleges in Delhi, providing free Wi-Fi, building 20000 public toilets, constituting women security force, installation of three lakh CCTV cameras, expansion of health facilities, among others.

There were 69 such promises, including creation of eight lakh jobs, skill training of one lakh youth every year by Delhi Skill Mission, which either remained mere promises or in which progress was very slow. It may be noted that prior to AAP government, 15 years between 1999-2000 and 2014-15, growth in capital expenditure was 19.6 per cent per annum (increase from ` 510.5 crores to `7430 crores), which declined to hardly 9.2 per cent in the first five years of the AAP government (increase from `7430 crores to hardly `11549 crores). It can be easily understood that the main reason behind the stalling of Delhi's development was lack of resources, as more and more resources are being used for giving freebies.

If it is said that these freebies schemes are targeted at the poor, then it will not be right. In 2021-22, in Delhi, where per capita income at current prices was `401,982 per year, out of 54.5 lakh electricity consumers, 43.2 lakh people are being provided electricity either free of cost or at half price. A big chunk of those, who can easily pay for electricity, are also being given electricity free. The facilities are being badly affected and the debt on the government is increasing, so it cannot be justified.

Not only this, 20,000 liters of water per month is also being provided free of cost to 5.3 lakh households. https://www.dailypioneer.com/2022/columnists/freebie-powers-the-aap-govt-in-delhi.html

8. महेश्वर विद्युत परियोजना के सभी समझौते रद्द *(downtoearth.org.in)* 29 September, 2022

27 सितंबर को मध्य प्रदेश के मुख्यमंत्री शिवराजसिंह चौहान ने महेश्वर जल विद्युत परियोजना के सम्बंध में निजी परियोजनाकर्ताओं के साथ हुए सभी समझौतों को रद्द करने घोषणा की। मंत्रिमंडल की बैठक में इस परियोजना के तहत किए गए समझौतों को रद्द करने की स्वीकृति दी गई।

जिन समझौतों के रद्द करने की स्वीकृति प्रदान की । उनमें 11 नवंबर 1994 - विद्युत क्रय समझौता, 27 मई 1996 - विद्युत क्रय समझौता संशोधन, 27 मई 1996 - इम्प्लीमेंटेशन एग्रीमेंट, 24 फरवरी 1997 - पुनर्वास व पुनर्स्थापना समझौता, 16 सितंबर 2005 - अमेंडेटेरी एंड रीस्टेटेड एग्रीमेंट शामिल हैं। साथ ही इन समझौतों से जुड़ी राज्य सरकार की सभी गारंटियों और काउंटर गारंटियों को भी रद्द कर दिया गया है।

महेश्वर परियोजना के खिलाफ नर्मदा बचाओ आन्दोलन के अंतर्गत इस परियोजना से होने वाले प्रभावित पिछले 25 वर्षों से लगातार संघर्ष कर रहे थे। प्रभावितों के साथ लगातार संघर्षरत नर्मदा आंदोलन के वरिष्ठ कार्यकर्ता आलोक अग्रवाल ने डाउन टू अर्थ को बताया कि यह हमारे संघर्ष की ऐतिहासिक जीत है। आखिर सरकार को यह मानना पड़ा कि हम सही थे, वे गलत थे।

महेश्वर जल विद्‌युत परियोजना के तहत नर्मदा नदी पर मध्य प्रदेश के खरगोन जिले में एक बड़ा बांध बनाया जा रहा है। 400 मेगवाट क्षमता वाली इस बिजली परियोजना को निजीकरण के तहत 1994 में एस कुमार समूह की कंपनी श्री महेश्वर हायडल पावर कॉरपोरेशन लिमिटेड को दिया गया था।

राज्य सरकार ने कंपनी के साथ सन 1994 में विद्‌युत क्रय समझौता और सन 1996 में संशोधित विद्‌युत क्रय समझौता किया था। इस जनविरोधी समझौते के अनुसार बिजली बने या न बने और बिके या न बिके फिर भी जनता का करोड़ों रुपया 35 वर्ष तक निजी परियोजनाकर्ता को दिया जाता रहना था। इस परियोजना की डूब में 61 गांव प्रभावित हो रहे थे।

इस परियोजना पर लगातार बीते सालों में लगातार अनिमितता के आरोप लगते रहे। इस परियोजना पर सीएजी तक ने अपनी रिपोर्ट इस बात का जिक्र किया है। इस संबंध में नर्मदा बचाओ आंदोलन की वरिष्ठ कार्यकर्ता चित्तरूपा पालित ने बताया कि इस परियोजना में तमाम वित्तीय अनियमितताएं हुईं और इसके कारण बार-बार परियोजना का कार्य बंद हुआ, परियोजना स्थल की कुर्की हुई और पिछले 12 वर्षों से परियोजना का काम ठप्प पड़ा था।

सीएजी ने वर्ष 1998, 2000, 2003, 2005 और 2014 की पांच रिपोर्टों में महेश्वर परियोजना के संबंध में गंभीर भ्रष्टाचार का खुलासा किया है, 2014 की रिपोर्ट में सीएजी ने तो यहां तक लिखा कि सरकार क्यों नहीं महेश्वर परियोजना का समझौता रद्द करती।

इसके अलावा भारतीय औद्योगिक वित्त निगम (आईएफसीआई) ने अपनी 2001 के रिपोर्ट में भी स्पष्ट कहा था कि परियोजनाकर्ता एस. कुमार्स ने तमाम बैंक व सरकारी संस्थायों से महेश्वर परियोजना के लिए लिये गये 106.4 करोड़ रुपये को उसी ग्रुप की अन्य कम्पनी को डाइवर्ट कर दिया था। इस कारण नर्मदा बचाओ आन्दोलन ने बार-बार यह मांग की थी कि परियोजना के लिए आये सार्वजनिक पैसे का फोरेंसिक ऑडिट किया जाए।

400 मेगावाट क्षमता की महेश्वर जल विद्‌युत्‌ परियोजना से मात्र 80 करोड़ यूनिट बिजली पैदा होना प्रस्तावित है। अभी जारी आदेश में स्वीकार किया गया है कि इसकी बिजली की कीमत 18 रूपये प्रति यूनिट से अधिक होगी। मध्य प्रदेश में वर्तमान में बिजली प्रदेश की समूची मांग पूरी करने के बाद भी 3,000 करोड़ यूनिट अतिरिक्त है और वर्त्तमान में बिजली 2.5 रु/ यूनिट की दर पर उपलब्ध है। अतः महेश्वर की बिजली बनती भी तो खरीदी नहीं जा सकती थी।

परन्तु महेश्वर परियोजनाकर्ता से हुए विद्‌युत क्रय समझौते के अनुसार बिजली न खरीदने पर भी सरकार को निजी परियोजनाकर्ता को लगभग 1,200 करोड़ रुपया प्रतिवर्ष, 35 वर्ष तक देना पड़ता। अतः साफ है कि 35 वर्ष में बिना बिजली खरीदे 42,000 करोड़ों रुपए मध्य प्रदेश की जनता की जेब से जाते। अतः परियोजना रद्द होने से जनता के यह 42,000 करोड़ रुपए लुटने से बच गये।

मध्य प्रदेश के जबलपुर स्थित बरगी बांध विस्थापित संघ के सदस्य राजकुमार सिन्हा ने बताया कि महेश्वर परियोजना निजीकरण के नाम पर जनता की लूट का एक वीभत्स उदाहरण है। शुरू से ही इस परियोजना

का उद्देश्य जनता के पैसे की लूट था, जिसे विस्थापितों के आन्दोलन ने लगातार भयावह दमन सहते हुए पूरी ताकत से उठाया और अंतत: उनकी जीत हुई। https://www.downtoearth.org.in/hindistory/energy/hydropower/all-agreements-of-maheshwar-power-project-canceled-85187

SELECTED NEWS ITEMS/ARTICLES FOR READING

9. GST investigation wing finds fraud of Rs 824 cr *(financialexpress.com)* 30 September, 2022

The investigations revealed that these entities had formed an arrangement to pass on ineligible ITC in the guise of marketing services and fraudulent invoices were raised by following a systematic modus in connivance with each other.

The Mumbai unit of Directorate General of GST Intelligence (DGGI) is investigating 15 insurance companies, including ICICI Prudential Life Insurance, multiple banks, NBFCs and intermediary marketing companies for wrongful availment and utilisation of Rs 824 crore input tax credit (ITC), sources said.

The investigations revealed that these entities had formed an arrangement to pass on ineligible ITC in the guise of marketing services and fraudulent invoices were raised by following a systematic modus in connivance with each other.

After investigations revealed that ICICI Prudential Life Insurance had availed and utilised ineligible ITC without underlaying supply of goods/services, it has voluntarily paid Rs 100 crore, sources said.

Total GST recovery has been Rs 217 crore from all these cases.

The officers of DGGI Mumbai visited the premises of a number of insurance companies, intermediary marketing/branding companies, NBFCs and banks in multiple cities to investigate the matter.

As a result, similar cases of availment and utilisation of ineligible ITC without receipt of underlying supply of goods or services were detected.

It appeared that the modus was systematically planned and executed mainly at the behest of insurance companies, sources said.

Statements of key persons involved indicated that the insurance companies have been executing the modus since the inception of GST.

Further investigations are in progress, sources said. https://www.financialexpress.com/economy/gst-investigation-wing-finds-fraud-of-rs-824-cr/2695740/

10. Govt lowers borrowing target for FY23; to borrow Rs 5.92 trn in H2 *(business-standard.com)* September 29, 2022

The government on Thursday slashed its market borrowing target for FY23 by Rs 10,000 crore, indicating buoyant tax collections which would be enough to bear Rs 44,762 crore additional expense on free ration distribution.

In addition to the Budgeted collection from direct and indirect taxes, the government is also expecting gains from the windfall profit tax on oil that was levied from July 1.

In a statement, the finance ministry said the government will do total borrowing of Rs 5.92 lakh crore during October-March period of the current fiscal, including from issuance of its maiden Sovereign Green Bonds of Rs 16,000 crore.

The government had in Budget for 2022-23 projected a gross market borrowing of Rs 14.31 lakh crore.

Of this, the government decided to borrow Rs 14.21 lakh crore during 2022-23.

"Accordingly, the balance amount of Rs 5.92 lakh crore (41.7 per cent of Rs 14.21 lakh crore) is planned to be borrowed in the second half (H2) of the fiscal year 2022-23 through dated securities, including Rs 16,000 crore through issuance of Sovereign Green Bonds (SGrBs) as per the announcement made in the Union Budget 2022-23," it said.

The government will continue to exercise greenshoe option to retain an additional subscription of up to Rs 2,000 crore against each of the securities indicated in the auction notification.

The amount raised through this option will be limited to 3 to 5 per cent of the gross issuance for second half and within the gross borrowing limit for the 2022-23.

The gross direct tax collections till September 17 grew 30 per cent to over Rs 8.36 lakh crore.

The statement further said the government will continue to carry out switch operations to smoothen the redemption profile.

"Out of the Rs 1,00,000 crore of budgeted (BE) switch amount, Rs 56,103 crore of switch auctions have already been conducted and the balance amount of switch auctions will be conducted in H2," it said.

The gross market borrowing of Rs 5.76 lakh crore (40.5 per cent) would be completed through 20 weekly auctions.

Gross borrowing includes repayment of past loans. The government raises money from the market to fund its fiscal deficit through dated securities and treasury bills.

The government on Wednesday extended by three months its programme to provide free rations to the poor at a cost of over Rs 44,700 crore, as it looked to ease pain from high inflation and make political gains in the upcoming Gujarat election.

The Cabinet decided to extend the Pradhan Mantri Garib Kalyan Anna Yojana (PM-GKAY) for about 80 crore beneficiaries, at an additional cost of Rs 44,762 crore.

"The market borrowing will be spread over 2, 5, 7, 10, 14, 30 and 40 years securities. The share of borrowing (excluding SGrB) under different maturities will be: 2 year (6.25 per cent), 5 year (12.15 per cent), 7 year (10.42 per cent), 10 year (20.83 per cent), 14 year (19.10 per cent), 30 year (15.63 per cent) and 40 year (15.63 per cent).

Weekly borrowing through issuance of Treasury Bills (TBs) in the third quarter (Q3) of 2022-23 is expected to be Rs 22,000 crore with net borrowing of Rs (-) 0.81 lakh crore during the quarter, it said.

There will be issuance of Rs 10,000 crore under 91 DTBs, Rs 6,000 crore under 182 DTBs and Rs 6,000 crore under 364 DTBs through each auction conducted during the quarter.

To take care of temporary mismatches in government accounts, the Reserve Bank of India has fixed the Ways and Mean Advances (WMA) limit for H2 of 2022-23 at Rs 50,000 crore.

WMAs are temporary advances given by the RBI to the government to tide over any mismatch in receipts and payments.

"The Reserve Bank may trigger fresh floatation of market loans when the government of India utilises 75 per cent of the WMA limit," it said.

The central bank further said it retains the flexibility to revise the limit at any time, in consultation with the government of India, taking into consideration the prevailing circumstances.

The interest rate on WMA will be equal to the repo rate and in case of overdraft, it will be 2 per cent above the repo rate. https://www.business-standard.com/article/economy-policy/govt-lowers-borrowing-target-for-fy23-to-borrow-rs-5-92-trn-in-h2-122092900931_1.html

11. States' MGNREGA under probe for potential financial misappropriation *(business-standard.com)* September 30, 2022

Some states have been using more than permitted MGNREGA funds to build rural infrastructure instead of generating livelihood opportunities for rural needy, says Central government

Concerned about potential financial misappropriation, the Centre has sent a warning to the states urging them to adhere to the true spirit of the flagship rural job guarantee programme, reported The Economic Times. Some state governments have been constructing rural infrastructure with more than permitted funds under the flagship

Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) rather than creating livelihood opportunities for the needy in rural areas.

According to an official, this was one of the main causes for the increase in programme expenses that strained the Center's budget.

While investigation into additional states is ongoing, the trend has been observed in the cases of two southern states.

"We are noticing a worrying trend whereby states have cut down spending under some of their schemes and are using MGNREGA funds for the creation of rural infrastructure like Anganwadis and crematoriums among others," a senior government official told The Economic Times.

60 per cent of the scheme allocation in a year has to be utilised for agriculture and allied activities and 40 per cent for asset or infrastructure creation, administrative purposes and wages.

The official further states that the rural development ministry has expressed its concern to the states and will pressure them to ensure that funding is focused on job creation as required under the scheme.

Agriculture and related industries must receive 60 per cent of the annual scheme allocation, while asset or infrastructure creation, administrative costs, and wages must be allocated 40 per cent of the budget allocated to the scheme.

"Rural infrastructure creation should only be a small part of MGNREGA, up to 25 per cent maximum, but some states are doing much more than that," the official said to ET.

In addition to the Rs 73,000 crore budget provision from the previous year, the government allocated an extra Rs 25,000 crore to the scheme in the Financial Year 2022. An additional outlay of Rs 40,000 crore was made in 2020–21. The budgetary allocation of Rs 73,000 crore for the Financial Year 2023 has not changed. With more than five months left in the current fiscal year, the Centre has already released Rs 48,594 crore, or about two-thirds of the planned amount.

According to experts, the Center shouldn't have a problem as long as the money is being spent productively and is not being syphoned off for any other unproductive use. https://www.business-standard.com/article/economy-policy/states-mgnrega-being-examined-for-potential-financial-misappropriation-122093000157_1.html

12. India's forex reserves fell the most among emerging economies: Report *(business-standard.com)* September 30, 2022

As the Reserve Bank of India (RBI) sold dollars to arrest the fall of the Indian Rupee, India's forex reserves depleted the most among all emerging economies. Since the beginning of 2022, India's reserves have fallen 13.88 per cent from $633.6 billion to $545.6 billion, according to a report in BusinessLine (BL).

After India, Russia's forex reserves fell over 10 per cent, followed by Indonesia's 9.19 per cent. On the other hand, Taiwan's foreign reserves fell the least, only 0.53 per cent.

However, RBI's steps have been able to limit the fall in the rupee. The rupee proved to be more resilient than most of the other currencies in the world. Against a US Dollar, rupee fell 8.9 per cent. Whereas the fall in South Korea's won was the highest at 16.37 per cent, followed by Thailand and Taiwan at 12.5 per cent, the report added.

The only currencies that have gained value against the $ are the Russian ruble, Brazilian real, and Mexican peso.

Until September 14, the rupee had fallen 6.9 per cent. The currency fell rapidly in the next 10 days following strict rate hikes by the US Fed, BL added.

On Thursday, the rupee closed at 81.73 per cent against the US dollar. On Wednesday, it closed at an all-time low of 81.94.

The RBI will on Friday announce the monetary policy. Experts have said that the bank may go with a 50 basis points hike, taking the repo rate to 5.9 per cent.

This becomes necessary due to the high inflation and fall in the value of the rupee. If the Indian currency continues to fall, it may lead to a further fall in India's foreign reserves, they added. https://www.business-standard.com/article/finance/india-forex-reserves-fell-the-most-among-emerging-economies-report-122093000164_1.html

13. India’s falling forex reserve isn’t a worry for now, but RBI has a tightrope walk ahead *(theprint.in)* 30 September, 2022

India’s foreign exchange reserves fell for a seventh straight week, dropping to USD 545.6 billion in the week ending 16 September. This is the lowest level of reserves since 2 October 2020. A large part of the fall in reserves has been on account of the RBI’s aggressive intervention in the currency market to prevent the slide of the rupee. The RBI managed to prevent the slide of the rupee beyond the Rs 80 per dollar threshold, till a few days back.

Given the relentless rise in the dollar, the RBI will have to allow the rupee to align to market fundamentals and use other tools to manage the rupee. This is important as reserves have come in not due to current account surplus but due to capital flows which have also turned volatile in recent months.

The rise of the dollar
Since the beginning of the calendar year, the US Federal Reserve has been announcing rate hikes. The Federal Funds Rate is now in the range of 3 to 3.25 per cent. The median projections by the Federal Open Market Committee (FOMC) members suggest that the fed funds rate would be 4.4 per cent by end of 2022 and 4.6 per cent in 2023. This implies more rate hikes are in the offing.

Rise in rates makes the dollar more attractive. Other countries’ central banks have also been raising rates but at a slower pace compared to the US Fed.

INTEREST RATE CHANGES BY MAJOR CENTRAL BANKS

COUNTRY	2019	2020	2021	2022
Australia	-0.75	-0.65	0.00	2.25
Brazil	-2.00	-2.50	7.25	4.50
China	-0.20	-0.30	-0.05	-0.05
United Kingdom	0.00	-0.65	0.15	1.50
India	-1.35	-1.15	0.00	1.40
Korea	-0.50	-0.75	0.50	1.25
Mexico	-1.00	-3.00	1.25	3.00
United States	-0.75	-1.50	0.00	3.00
South Africa	-0.25	-2.75	0.25	1.50

Source: Bank for International Settlements (BIS)

Graphic: Ramandeep Kaur | ThePrint

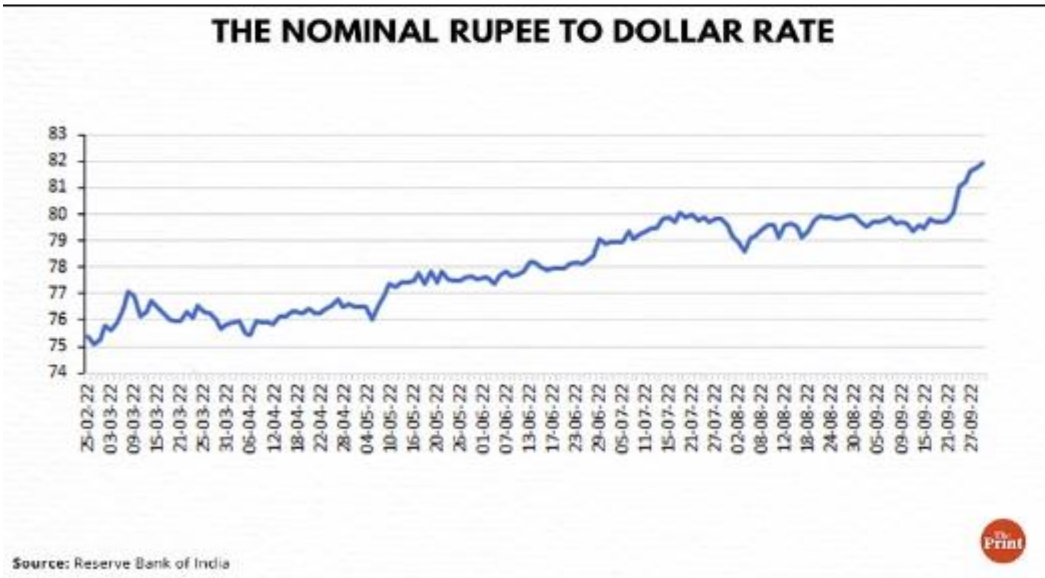
For instance, the Bank of England has raised rates by 1.5 per cent, the Australian Central Bank by 2.25 per cent, and the European Central Bank by 1.25 per cent. As a result, the dollar index, a gauge of the dollar's strength against a basket of currencies, has seen a significant rise. Post the recent 75 basis points hike in the interest rate by the US Fed, the dollar index rose to a two-decade high at 111.8.

Source: CNBC

Graphic: Ramandeep Kaur | ThePrint

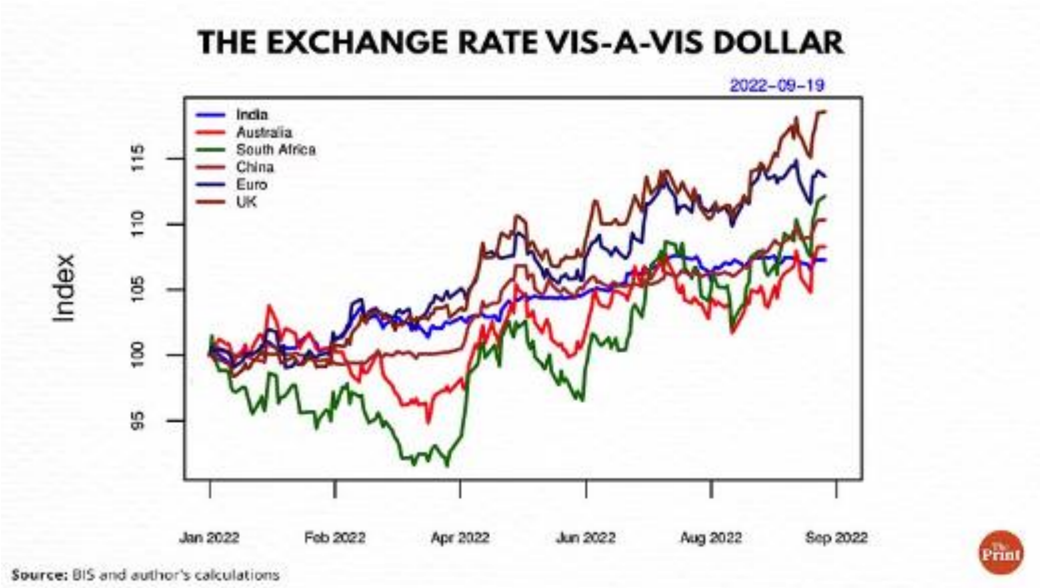
The fall of the rupee

The surge in the dollar index is leading to a downward pressure on the rupee. The rupee has depreciated by 8.9 per cent since the onset of the Russia-Ukraine war. As compared to peer countries' currencies, the rupee has performed better. But this is an outcome of RBI's sale of dollars to prevent the fall in the rupee.



raphic: Ramandeep Kaur | ThePrint

he foreign exchange reserves have declined by almost USD 86 billion since the beginning of he war. In July, the RBI sold USD 19 billion dollars to prevent rupee depreciation. Apart from he actual dollar sales, reserves are also affected by a drop in major currencies like the euro and en against the dollar.



raphic: Ramandeep Kaur | ThePrint

Dollar appreciation lowers the dollar value of non-dollar currencies.

In contrast, during the taper tantrum episode (during late April 2013 to September 2013), the rupee depreciated by almost 16 per cent. The decline in reserves was relatively modest at USD 21.5 billion during this period.

Metrics of reserve adequacy

Foreign exchange reserves are considered an important part of the policy tool-kit of most economies. They are held for many reasons, such as to counter disorderly market conditions, bring confidence in the currency or for influencing the exchange rate.

The International Monetary Fund (IMF), in a series of papers, has developed three traditional metrics to assess adequacy of reserves. For countries with restrictive capital accounts, import cover is seen as a relevant metric. It highlights how long imports can be financed in the event of a shock. Reserves equivalent to cover three months of imports is used as a thumb rule for adequacy of reserves for developing economies. However, with increasing financial integration, the applicability of this measure has become less useful.

Another measure of reserve adequacy which is increasingly used in emerging economies is the 100 per cent coverage of outstanding short-term external debt. This is particularly true for countries with large short-term cross-border financial transactions.

The third measure of reserve adequacy is the ratio of reserves to broad money. This is used to assess the adequacy of reserves towards crises triggered by flight of capital. Recent crises have been accompanied with outflows of resident deposits. To address this risk, reserves should typically be 20 per cent of the broad money (currency with public and deposits).

India’s adequacy of reserves

Traditionally, reserves in India have remained fairly above the 3-months of import coverage. At a peak of USD 642 billion in October 2021, India’s reserves were sufficient to cover 16 months of imports. With the recent decline to USD 545.6 billion, reserves cover of imports has fallen to 9 months. Elevated imports amid a declining forex reserves have led to a decline in import cover. While the present level of reserves are much above the benchmark level of three months of import cover, further intervention by the RBI to arrest volatility will determine the adequacy of reserves.

On the second metric of 100 per cent coverage of outstanding short-term external debt, India’s reserves have been fairly above the short-term external debt. Recent estimates suggest that short-term debt is less than half of the reserves. Reserves are just about the threshold level of 20 per cent of broad money. A study by the RBI shows that there have been times when reserves have fallen below the threshold level of 20 per cent of broad money.

Policy-trade-offs and challenges

The sharp dollar surge has led to weakening of not only the rupee but other currencies like pound, euro and yen. The pile-up of reserves have slowed due to volatile capital flows amid a sustained current account deficit. In July, the RBI had announced measures to boost forex inflows and to stem the slide of the rupee. These included liberalising the norms for foreign investments in government and corporate bonds, easing the limits for foreign currency borrowings and liberalising norms to help banks attract greater deposits from non-residents. These did not have a material impact on foreign flows given the sustained surge in the dollar.

RBI may possibly have to go in for another 50 basis points rate hike to support the rupee. Intervention to support will become challenging as it will tighten liquidity in the banking system at a time when credit demand is picking up. It may be a good time to expedite inclusion of bonds in emerging market bond indices to attract greater inflow of foreign capital. https://theprint.in/india/indias-falling-forex-reserve-isnt-a-worry-for-now-but-rbi-has-a-tightrope-walk-ahead/1148502/

14. RBI lowers GDP growth projection to 7% for 2022-23 *(businesstoday.in)* Updated Sep 30, 2022

Reserve Bank of India Governor Shaktikanta Das said during the MPC announcements on Friday that GDP projection for 2022-23 has been reassessed to 7 per cent. The RBI MPC projected GDP growth for 2022-23 at 7.2 per cent in the previous meeting. He said that Q1 reported a growth of 13.5 per cent, while Q2 GDP is projected to grow at 6.3 per cent, Q3 4.6 per cent, and Q4 4.6 per cent. The first quarter of 2023-24 is expected to grow at 7.2 per cent.

"The headwinds from extended geopolitical tensions, tightening global financial conditions and possible decline in the external component of aggregate demand can pose downside risks to growth," said the Governor.

Speaking about the GDP growth in the first quarter of 13.5 per cent, Governor Das said that while real GDP growth in the first quarter was lower than the expectations, it was the highest among major global economies.

"While real GDP growth in Q1:2022-23 turned out to be lower than our expectations, the late recovery in kharif sowing, the comfortable reservoir levels, improvement in capacity utilisation, buoyant bank credit expansion and government's continued thrust on capital expenditure are expected to support aggregate demand and output in H2:2022-23," he said.

Das said that in the last 2.5 years, the world saw two major shocks – COVID-19 and the Ukraine war. These shocks have produced a profound impact on the global economy, he said. "As if that was not enough, we are now in the midst of a third major storm arising from aggressive monetary policy actions and even more aggressive communication, mostly from advanced country central banks," said Das.

He said the country's 'steely resolve', its journey in the past 2.5 years, and the withstanding of the shocks of COVID-19 and the Ukraine war have given the country the confidence to face the new storm.

The lowering of GDP growth comes after the MPC projected a growth of 7.2 per cent in 2022-23, with Q1 projection at 16.2 per cent. However, Q2, Q3 and Q4 projections were lower than today's announcements at 6.2 per cent, 4.1 per cent and 4.4 per cent. https://www.businesstoday.in/latest/economy/story/breaking-rbi-lowers-gdp-growth-projection-to-7-for-2022-23-348616-2022-09-30

15. Govt puts on hold privatisation of Central Electronics *(fortuneindia.com)* Sep 29, 2022

The government on Wednesday terminated the sale of Central Electronics Limited to Nandal Finance & Leasing owing to a pending money laundering case against the bidder in the National Company Law Appellate Tribunal (NCLAT), which disqualifies it from the divestment process.

The decision has been taken following a recommendation by the alternative mechanism (AM) team for “disqualifying the successful bidder, excluding the successful bid from any further consideration, and terminating the current transaction.” The alternative mechanism team includes finance minister Nirmala Sitharaman, minister of road transport and highways Nitin Gadkari and minister of state (MoS) for science and technology Jitendra Singh.

The Department of Investment and Public Asset Management (DIPAM) said in a statement, “While keeping the Letter of Intent (LoI) on hold, the government examined these allegations and found merit only in one allegation regarding pendency of a proceeding in NCLAT against the successful bidder that may result in disqualification of the bid under applicable provisions of Preliminary Information Memorandum (PIM) and Request for Proposal (RFP).”

The case against Nandal Finance has been filed by the Registrar of Companies. As per the DIPAM guidelines, any entity becomes ineligible for the bidding process, if the promoter group or the director is facing any conviction in court. The sale of Central Electronics Limited, which was incorporated in 1974 under the Department of Scientific and Industrial Research (DSIR), was approved to Nandal Finance worth ₹210 crore in November last year. In March this year, the transaction was scheduled to be completed. Apart from Nandal Finance, JPM Industries Ltd had also participated in the bid.

However, in January this year after receiving complaints from employees of Central Electronics Limited, the government put on hold issuing the letter of intent to Nandal Finance. The CEL’s employees had approached the Delhi High Court alleging that the company is undervalued and that Nandal Finance and JPM Industries are inter-related as they have a common director.

The development comes months after the government put the privatisation of beleaguered helicopter company, Pawan Hans on hold in May. The government had approved the sale of Pawan Hans to Star9 Mobility worth ₹211 crore, which is above the government’s quoted price of ₹119 crore. Star9 Mobility is a three-way consortium of Cayman Island-based Almas Global Opportunity Fund—a subsidiary of Dubai-based Almas Capital, Mumbai-based Big Charter Private Limited, and Delhi-based Maharaja Aviation Private Limited. However, following the financial discrepancies by Almas Global Opportunity Fund in a previous bid, the divestment process was put on hold.

In February this year, the government revised its disinvestment estimate for the current financial year to ₹78,000 crore, while setting the target at ₹65,000 crore for FY2022-23. In order to meet its divestment target, the government had scheduled the divestment of Life Insurance Corporation (LIC), Bharat Petroleum Corporation Ltd (BPCL), RINL, Pawan Hans, Air India and Central Electronics Limited. The divestment process for LIC via IPO and the sale of Air India to Tata Group has been completed this year. Meanwhile, the government has said that the BPCL divestment is not on cards this year. https://www.fortuneindia.com/macro/govt-puts-on-hold-privatisation-of-central-electronics/109845

16. Fiscal deficit target intact despite PMGKSY extension: Finmin *(financialexpress.com)* September 30, 2022

The Centre's extension of the free grains scheme for another three months will be funded through savings on revenues expenditures and will not lead to additional borrowings, a senior finance ministry official told FE. Despite the additional food subsidies and extra outgo expected on fertiliser and fuel subsidies, the official said, the fiscal deficit will likely be contained at the budgeted level of 6.4% of GDP.

A day after announcing the free ration scheme for the poor, which will cost exchequer Rs 44,762 crore (without factoring in open market sales of grains), the government on Thursday cut its market borrowing target for the current fiscal by Rs 10,000 crore. The finance ministry said the government will do total borrowing of Rs 5.92 trillion during H2FY23, including from issuance of its maiden Sovereign Green Bonds of Rs 16,000 crore.

Besides the extra tax collections, the government is banking on savings on revenues expenditures such as in centrally sponsored schemes and central sector schemes to provide for about Rs 2.75 trillion additional expenditure seen in subsidies in FY23. This includes Rs 1.25 trillion on account of Pradhan Mantri Garib Kalyan Ann Yojana (PMGKAY) for April-December 2022, Rs 1.3 trillion extra on fertiliser subsidies and an additional Rs 20,000 crore on LPG subsidies "These additional expenditures will be met through savings on revenue expenditures," the official, quoted above, said.
The Centre has recently retrieved about Rs 40,000 crore lying with state treasuries for the last 2-3 years and these states were forced to release these funds to agencies implementing assorted Centrally Sponsored Schemes. In effect, the Centre has made savings of a similar amount from the current financial year's allocation for these schemes.

The savings accrued in the bulk of the 49 centrally sponsored schemes including the national health mission and education mission. However, the Mahatma Gandhi National Rural Employment Guarantee Scheme (MG-NREGS) may face a fund crunch and get disrupted unless the government increases the allocation for the popular scheme from the budgeted level soon. As much as 72% of the Rs 73,000 crore Budget allocation for the scheme has already been spent, the latest data from the rural development ministry showed. Of course, the finance ministry will assess the additional fund requirement during the revised estimate discussions next month.

On the other hand, the Centre will also make some savings on the Central Sector Schemes as it has asked the autonomous bodies/implementing bodies to either use or return the unutilised funds lying with them as on March 31, 2022, before seeking fresh funds from this year's budget, officials said.

Of the total budget size of Rs 39.4 trillion for FY23, the Centre has allocated Rs 4.4 trillion for Centrally Sponsored Schemes and Rs 11.81 trillion for Central Sector Schemes. The revenue expenditure budget for FY23 is Rs 31.9 trillion.

Despite about Rs 1 trillion tax revenue loss due to a reduction in excise duty on petrol-diesel and import duties on select raw materials, the centre's net tax revenues could exceed the FY23 budget target by about Rs 2 trillion due to buoyancy in direct taxes and goods and services taxes. On the non-taxes side, dividends from CPSEs could also exceed the budget target by Rs 10,000-20,000 crore in FY23.

In keeping with the focus on capex, the Centre invested Rs 2.09 trillion in April-July of the current fiscal, up 62% on the year. A senior official told FE recently the capex target of Rs 7.5 trillion will be achieved or exceeded in FY23.

"We expect the fiscal deficit to modestly overshoot the budgeted level, following the extension in PMGKAY for another three months," rating agency Icra chief economist Aditi Nayar said. "We expect the size of the fiscal deficit overshoot to be limited to around Rs 1 trillion," Nayar added. A higher than budgeted nominal GDP size will give some comfort to the fiscal deficit ratio though. https://www.financialexpress.com/economy/fiscal-deficit-target-intact-despite-pmgksy-extension-finmin/2695823/

17. Defence Procurement: Negative Lists with Positive Implications *(idsa.in)* September 30, 2022

In 2013, the government announced Defence Indigenisation Policy and mandated that defence equipment be manufactured with at least 30 per cent of the indigenous content on the overall cost. The Defence Acquisition Policy (DAP), announced in 2020, extended the previous limit to 50 per cent of indigenous content on overall manufacturing costs. It was a significant step that showed the government's confidence in domestic arms vendors and their capabilities to serve the needs of the Armed Forces.

Prime Minister Narendra Modi, during his address to the nation on 12 May 2020, gave a clarion call for a Self-reliant India, based on five principles—Economy, System, Infrastructure, Demography and Demand. He also announced a special economic package called 'Atmanirbhar Bharat'. Taking it as a pivot point, the Ministry of Defence (MoD) released 'Negative List' of defence equipment banning their imports and to push for indigenisation to meet the aspirations of 'Atmanirbhar Bharat'. Three such lists have been released so far. This commentary analyses the implications of these lists for the Indian domestic arms sector.

The Negative Lists

On 7 April 2022, Defence Minister Rajnath Singh announced the third Negative List. The MoD and the Department of Military Affairs (DMA) notified the import ban on defence articles under the third Negative List which will be indigenously manufactured between December 2022 and December 2027. The third negative list contains 101 defence articles including Sensors, Complex Systems, Naval Utility Helicopters, Lightweight Tanks, Anti-tank Guns, Medium Altitude Long Range Unmanned Aerial

Vehicle (MALE UAV), Loitering Munitions, High Endurance Autonomous Underwater Vehicles and other weapons systems. The import ban will help Indian industry gather orders worth Rs 2,10,000 crores in the next five to seven years.

The list was made after several rounds of close consultation between the MoD, Service Headquarters (SHQ), Department of Defence Production (DDP), Defence Research Development Organisation (DRDO), and private companies. The government is taking the necessary steps along with DRDO and all other stakeholders to handhold the industry to ensure self-reliance in defence manufacturing.

To strengthen and promote domestic arms manufacturing, DRDO has signed 30 agreements for the Transfer of Technology (ToT) with 25 industries. DRDO has so far signed 1,430 ToT agreements with domestic arms industries, including 450 ToT agreements since 2020. These technologies mainly relate to counter-drone systems, missile warheads, laser directed energy weapon systems, radar systems, surveillance and reconnaissance systems, among others.

The first two Negative Lists were announced in August 2020 and March 2021, respectively. Under the first list, MoD included 101 items for import ban, progressively effective from December 2020 and December 2024. The second list included 108 items for the import embargo, planned to be implemented between December 2021 and December 2025. With the inclusion of the third negative list, there are now 310 defence articles in total which would be embargoed and developed by domestic vendors.

After the first two lists, the MoD has accorded Acceptance of Necessity (AoN) approval for 83 projects worth Rs 1.77 crores whereas projects worth Rs 2.94 crores will be generated in the next five to seven years. The list announced earlier contained transport aircraft, light combat helicopters, artillery guns, SONAR systems, assault rifles, submarines and corvettes, among others.

Drivers behind Indigenisation Lists

India has been one of the largest importers of arms in the last three decades. India's arms imports fell by 21 per cent between 2012–16 and 2017–21, after continuously rising since 1991. SIPRI's Trend Indicator Value (TIV) indicates that India's arms imports reduced from US$ 19,432 million to US$ 15,356 million in the last five years. However, despite this, India remained the largest arms importer, accounting for 11 per cent of the total global arms import in 2017–21.

India is striving to cut down defence imports and promote exports of defence equipment made by domestic industry. The draft Defence Production and Export Promotion Policy 2020 has set an ambitious goal to achieve a defence manufacturing industry with US$ 25 billion turnover by 2025, including the export of military hardware worth US$ 5 billion.

The Government of India has taken necessary steps to enhance domestic manufacturing and promote arms export in the last several years. These steps have produced fruitful results as India became the 23rd biggest arms exporter in 2017–21.8 India showed a positive growth rate of 119 per cent in arms export between 2012–16 and 2017–21. India is now exporting arms to 42 countries and its major arms recipients are Myanmar (50 per cent), Sri Lanka (21 per cent) and Armenia (11 per cent).

The Indian industry has been reaching out to many countries, including in Latin America for instance, to showcase its arms for export and for possible co-production and co-development. India has signed a US$ 375 million contract with the Philippines to export three batteries of BrahMos supersonic cruise missiles in January 2022. With this success, India is expecting some more big ticket contracts from countries like South Africa, Saudi Arabia, Vietnam, Indonesia and other South-East Asian countries. Nine countries from Africa and South-East Asia have shown interest in the acquisition of DRDO-made Akash missile system. Similarly, several countries including the US, Argentina, Philippines, Australia, Egypt and Indonesia have expressed interest in Light Combat Aircraft (LCA) Tejas, whereas Royal Malaysian Air Forces have already shortlisted LCA Tejas for acquisition programme.

Another major reason for releasing a negative list or banning the procurement of 'off-the-shelf' defence equipment relates to concerns over breach of technical data. Most of the arms are technologically advanced and software-enabled, which can easily be controlled and manipulated and could lead to data breaches. While announcing the third negative list, Rajnath Singh gave reference to US's harsh sanctions on Chinese tech giant Huawei against its role in stealing data and breaching US national security.

In 2011, thousands of pages of technical details of India's Scorpene submarines were leaked. In 2016, The Australian reported that documents on the entire submarine structure, Torpedo-launch system, communication and navigation system, under and above-water sensors, and combat management system were leaked by the officials of Scorpene submarine contractor, DCNS.India had signed a US$ 3 billion deal with French shipbuilder DCNS in 2005, to indigenously assemble and build Six Scorpene class submarine in India.

Conclusion

The steps taken by the government to promote domestic defence manufacturing have shown some positive results. After the first two lists were announced, around 31 projects worth Rs 53,839 crores have been contracted from the domestic defence industry by the armed forces. The Indian Armed Forces have contracted around 260 programmes of these items worth Rs 3.5 lakh crores between 2015 and 2022. The import embargo is expected to help generate contracts worth Rs 4 lakh crores from domestic arms industries in the next five years. The indigenisation lists are expected to promote domestic arms manufacture and reduce the burden of arms imports. https://idsa.in/idsacomments/Defence-Procurement-mkumar-300922