NEWS ITEMS ON CAG/ AUDIT REPORTS (11.11.2022)

1. Crippled by huge losses, RSRTC seeks six-month time to repay bond *(business-standard.com)* Nov 10, 2022

Faced with huge losses that have affected its cash flow and liquidity, the Rajasthan State Road Transport Corporation (RSRTC) has requested an extension of six months from investors to redeem the last instalment of 10-year bonds worth a total of Rs 311.80 crore.

The last instalment, which the firm has requested an extension for, is worth Rs 124.72 crore.

The instalment, which is 40 per cent of the bond amount, was due on November 1. The state-run firm has requested investors for an extension till May 1, 2023. The coupon of the bond — or the rate of interest to be paid to investors — is 9.70 per cent.

"At present, the corporation is running in huge losses, which have severely affected the cash flow and liquidity of the Corporation. Efforts are being made to improve the cash flow position. We are continuously and closely monitoring the developments and suitable measures are being taken for improving our cash flow for the above envisaged payment," documents accessed by Business Standard showed.

"In the present scenario, it is very difficult for the corporation to redeem the final instalment of 40 per cent of the bond amount on the due date of November 1, 2022. Therefore, an extension for payment of redemption amount for six months i.e.

May 1, 2023, is proposed for which your consent is requested," the documents showed. The documents were dated October 28.

"The half-yearly interest shall be paid on time and further interest at the rate of 9.70 per cent per annum shall also be served till the date prior to extended redemption date," the documents showed. RSRTC, based in Jaipur, had issued 10-year bonds worth Rs 311.80 crore via private placement in 2012-13 (April-March).

According to disclosure documents, the redemption of the bonds would be at par at the end of the 8th, 9th, and 10th years in a ratio of 30:30:40, respectively.

A report by the Comptroller and Auditor General of India showed that RSRTC reported a loss of Rs 153.76 crore in 2019-20. The RSRTC's website does not have financial statements beyond 2019-20. The CAG's report showed that RSRTC is one of five state public sector enterprises with the maximum erosion of net worth as on March 31, 2020, with an erosion of Rs 4,330.79 crore.

According to the RSRTC website, the company has credit ratings by two firms — Brickwork Ratings and Acuite Rating.

In early October, capital markets regulator Sebi cancelled the licence of Brickwork Ratings India and directed the credit rating agency to wind down its operations within six months for allegedly violating various rules.

In a rating update in July 2020, Brickwork had said RSRTC requested investors for an extension of six months for principal payment of Rs 188.20 crore and interest for Rs 500 crore worth of bonds issued by the Jaipur-based firm in December 2019. Subsequently, Brickwork downgraded RSRTC's bonds.

RSRTC's inability to make bond repayments comes at a time when Rajasthan is facing fiscal stress.

The RBI said in its June 2022 Bulletin that Rajasthan counted as a highly stressed state taking into account indicators such as debt to gross state domestic product ratio (GSDP).

Rajasthan exceeded both debt and fiscal deficit targets for 2020-21 set by the 15th Finance Commission, with the state's gross fiscal deficit exceeding 3.5 per cent of GSDP on an average from 2011-12 to 2019-20, the RBI said. According to the Fiscal Responsibility Legislation, state governments are to keep fiscal deficit within a ceiling of 3 per cent of their GDP.

LOSS-MAKING STATE FIRM

-RSRTC had issued 10-year bonds worth Rs 311.80 crore via private placement in 2012-13

-CAG report shows RSRTC logged Rs 153.76-cr loss in 2019-20

-At Rs 4,330.79 crore, RSRTC among 5 SPSEs with biggest net worth erosion as on March 31, 2020

-Brickwork had downgraded RSRTC's bonds after the state firm requested six-month time for principal payment of Rs 188.20 crore. https://www.business-standard.com/article/finance/crippled-by-huge-losses-rsrtc-delays-10-year-bond-repayment-122111001489_1.html

2. HP Assembly: Sorry State of Healthcare in Himachal *(newsclick.in)* November 11, 2022

Shimla: Himachal Pradesh- set to go to polls on November 12, will face a neck-to-neck fight between the incumbent Bharatiya Janata Party (BJP) and Congress. Every political leader has hurled allegations against each other over various issues in election campaigns. They are taking up issues like unemployment, Uniform Civil Code, Old Pension Scheme, etc., to draw the attention of the electorate.

During the election rallies, Amit Shah reiterated the BJP's promise to implement the Uniform Civil Code if voted to power. At the same time, Congress' Priyanka Gandhi Vadra assured the withdrawal of 'The Agnipath Scheme' and regulation of the Old Pension Scheme (OPS)- which has been haunting the BJP if the grand old party again comes to power after five years.

However, one of the biggest sectors- the health sector- has found negligible mention in political rallies and party manifestos. While the BJP has promised five new medical colleges and mobile health clinics, the Congress has also announced opening mobile health clinics in its manifesto, but, other than healthcare finding an 'honorary' mention in political rallies in the run-up to the Assembly elections, the existing condition of the health sector in the small hill state, remains largely poor.

According to Rural Health Statistics 2020-21 and Budget documents of the Himachal Pradesh Government, spending on health in Himachal Pradesh from 2012-13 to 2020-21 remained below 5% of total budgetary allocation and in the covid period in 2019-20 and 2020-21, the state government spent even less than committed in the budget estimates.

There are 2,114 Sub centres, 553 Primary Health centres (PHC) and 98 Community Health Centres (CHC) in Himachal Pradesh. NewsClick travelled to one such CHC located in the Chopal constituency of Shimla district to take stalk of the ground reality.

CHC Chopal

Chopal is a Sub Division (administrative division) of Shimla District and is over 50km from the capital. Civil Hospital Chopal is one of the 98 CHCs in Himachal and caters to a rural population spread across a radius of 40-50 km.

It is imperative to remember that the villages in and around Chopal are not only far away from the capital city, Shimla; most are remote with link roads and sometimes no roads at all. Providing healthcare and even First Aid remains challenging to a staff of nine doctors here. A senior doctor working here told NewsClick, "We have a running capacity of 50 beds here even though it is proposed to be run at a 100-bed capacity. People here don't have resources and are simple village people who don't object, but if you come here from a bigger city, you'd be angry to see this state."

Doctors of this hospital struggle with a shortage of basic requirements like sutures, oxytocin and gloves- which are essential requirements as most cases coming here are accident cases and pregnancy cases. "Our seniors ask us to indent, and we do; our clerk shows us the report, but we never receive it," a female doctor requesting anonymity told NewsClick.

"Now we just identify and refer because we don't have basic equipment like an Ultrasound machine. We have an x-ray machine, but other than that, we collect samples and send them. It's normal here, and we have gotten used to it along with the people," she added.

According to Indian Public Health Standard (IPHS) norms, four specialists (Surgeons, Obstetricians, Gynaecologists and Paediatricians) are required at every CHC. In Himachal, out of a total of 98 CHCs, only one CHC has all four specialists, and 97 CHCs do not have all four. "Only the CHC in Theog has all four specialists," she added. Her statement corroborates with the data available as 392 specialists are required in CHCs, out of which only eight are in position, and 384 posts are vacant. At district and sub-district hospitals, there are 1,717 posts sanctioned; out of this, 24% of doctors' posts are vacant."

One of the most challenging times for this hospital was when the pandemic hit. Another Senior doctor, who has been at the hospital for nearly four years now, recalled the time when the pandemic hit in 2020. "We had a shortage of workforce. At that time, we were only three doctors here taking turns with OPD and Corona OPD as well. We were not only overworked; we did not even have PPE kits, masks- forget N95 masks, we did not have gloves and Corona tests as well!" she told NewsClick.

On average, the doctors here tend to nearly 100 patients a day with ailments ranging from fever, vomiting, typhoid, and diarrhoea to deliveries. However, during the first wave of Corona, the three doctors here had to tend to nearly double the amount on a daily basis without proper covid protocol.

Adding to their woes, winters in this area are severe, with the region receiving snowfall up to three feet which results in electricity cuts for up to four days at a stretch. "Winters are the worst. With no power supply, we struggle to do our jobs. Roads are blocked, so we need to keep patients at the hospital, but generators run out of fuel, and we need electricity to supply oxygen and nebulisers. Overall, it gets pretty rough," she added.

Government Apathy a New Normal
Whether it's the CHC at Chopal or the Indira Gandhi Medical College (IGMC)- one of the six medical colleges and the biggest hospital out of the 101 government hospitals in Himachal (according to HP economic survey 21-22), a common theme of lacklustre attitude by the Government has been found.

A Post Graduate Resident in the Dermatology Department of IGMC told NewsClick that the staff remains highly overworked despite several vacant posts.

"Everybody sees it. Patients get agitated when they have to wait in line for hours to get tests done or to get a consult. But we also only have so much time in a day, and we're left with no choice but to pacify them by saying we are doing what we can," a doctor requesting anonymity told NewsClick.

"This has become normal," the doctor added. When asked if the recently inaugurated All India Medical Sciences (AIMS) Bilaspur would be conducive to reducing workload, she said, "It has to be fully functional first. The Government is announcing and opening these super speciality hospitals but they are not functional. No one knows how long they will take to be fully operational."

She was referring to the Trauma Centre and Superspecialty Block of IGMC being brought up in the Chamyana area of Shimla, which was proposed to be completed in March 2022 but remains under construction to date. According to a report by the Comptroller and Auditor General of India (CAG), the health and family welfare department of Himachal Pradesh failed to establish envisaged trauma centres in five hospitals even after incurring an expenditure of Rs 10.61 crore. There was further idling of funds of Rs 7.81 crore with these hospital authorities for 30-57 months.

"With the elections around the corner, I don't see any difference in the way healthcare has improved in the last five years. On the other hand, I think it has deteriorated only," said a senior Doctor told NewsClick. https://www.newsclick.in/HP-assembly-sorry-state-healthcare-himachal

SELECTED NEWS ITEMS/ARTICLES FOR READING

3. Centre releases extra tax devolution to states *(financialexpress.com)* November 11, 2022

The Centre on Thursday released an extra installment of tax devolution to state governments amounting to Rs 58,333 crore for November. This is the second such release this fiscal, the first being in August, to arrest a slowdown in their capital expenditure.

"The Union government has released two installments of tax devolution to state governments amounting to Rs 1,16,665 crore today (Thursday), as against normal monthly devolution of Rs 58,333 crore," the finance ministry said in a statement.

"This is in line with the commitment of Government of India to strengthen the hands of states to accelerate their capital and developmental expenditure," it added.

The state governments have slowed down their capital expenditure in the first six months of the current fiscal to accommodate higher revenue spending even as they continue to curb borrowings. The combined capex of nineteen states whose finances were reviewed by FE was up just 2% on year at Rs 1.67 trillion in April-September of the current fiscal. The growth was 80% in the year-ago period, albiet on a favourable base.

Central tax devolution will overshoot the FY23BE, warranting an early reassessment of the monthly amounts being shared with the states to enable them to boost their capital spending, given the lead time required to plan and execute capital projects.

In FY22, a large part of the upside in tax devolution was back-ended to Q4, which ended up reducing state government borrowings in that quarter but did not translate to higher spending.

According to a FE analysis, the Centre's gross tax revenue may exceed budget target by Rs 4 trillion in FY23, thanks to robust growth in GST and direct tax receipts. https://www.financialexpress.com/economy/centre-releases-extra-tax-devolution-to-states/2804246/

4. Massive fertiliser subsidy bill a fiscal challenge but hope floats *(cnbctv18.com)* NOVEMBER 11, 2022

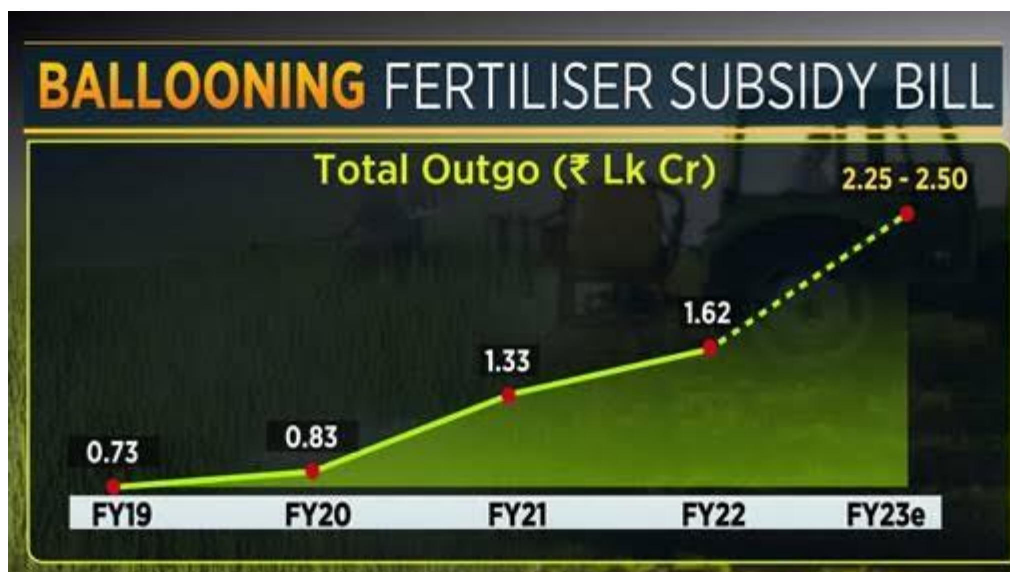
By the end of this fiscal, the fertiliser subsidy bill is estimated to grow over 3 times, from Rs 74,000 crore in FY19. While this is a headache for the govt it is banking on lower fertiliser and gas prices next year as the ripple effect of the Russia-Ukraine war fades out. CNBC-TV18's Sapna Das has the math on fertiliser subsidies and what it means for the fisc.

A ballooning fertiliser subsidy bill is posing fresh fiscal challenges for the government. By the end of this fiscal, the subsidy amount is estimated to grow over three times from Rs 74,000 crore in FY19. With no quick fix available, the government is now betting on lower fertiliser and gas prices next year to help bring those numbers down.

Let's figure out the math on fertiliser subsidies and what it means for the fisc.

The fertiliser subsidy bill is a crucial component of the government's expenses every year and the trend over the last few years has been a bit worrying for a government that is keen on sticking to a fiscal glide path.

During the last three financial years alone, fertiliser subsidy has been clocking a new high every year. From a modest Rs 73,000 crore in 2019, the number jumped nearly 55 percent in two years to Rs 1.33 lakh crore in 2021 and then to a record Rs 1.62 lakh crore last fiscal. For FY23, this number is expected to come in anywhere between Rs 2.25 lakh crore and Rs 2.5 lakh crore.



This is based on the fact that the Department of Fertiliser has asked the Finance Ministry for an additional Rs 1.48 lakh crore, which will mean that the budget nearly doubles from its original size.

Of this enhanced budget, Rs 1.4 lakh crore is broadly earmarked for urea – that's 125 percent higher than the budget estimate. The nutrient-based subsidy is pegged at Rs 112 lakh crore, which is 166 percent higher than the original budget outlay.

FY23 FERTILISER SUBSIDY BILL

Product	Additional Demand	Vs Budget Estimate
Urea	₹1.40 lk cr	125% Higher
NBS	₹112 lk cr	166% Higher

Rs 2.5 lakh crore, the fertiliser subsidy bill is huge for an economy of India's size. Even at an expanded nominal gross domestic product (GDP) of Rs 237 lakh crore, this works out to 1 percent of GDP. It's also a little higher than the food subsidy budget of Rs 2 lakh core for FY23, if the additional financial burden brought on by the government's free food and grains scheme – the PMGKAY – is not counted.

FERTILISER SUBSIDY & THE ECONOMY

The Big Picture

- FY22 GDP (current prices): ₹237 Lk Cr
- ₹2.5 lk cr FY23 fertiliser subsidy = 1% of GDP
- Fertiliser subsidy > Food subsidy (ex-PMGKAY)

But the government is hopeful that the shock of a higher subsidy bill will not spill over into the next fiscal. According to government officials, as a ripple effects of global lockdowns and the Russia-Ukraine conflict fade away, next year's fertiliser subsidy bill is likely to be lower, helped along by lower input costs and softening gas prices.

In the meantime, the government is caught between a rock and a hard place – because it has said it remains committed to protecting farmers, and fertiliser subsidies are key to that. On the other hand, it also wants to maintain its fiscal glide path. The only silver lining is that when it comes to fiscal deficit, the government can deviate from its target if extraneous circumstances beyond its control continue to play out. https://www.cnbctv18.com/economy/massive-fertiliser-subsidy-a-fiscal-challenge-but-hope-floats-15139091.htm

5. Modest revenue growth, higher capital outlays to keep States' debt high at 30-31% this fiscal: Report *(thehindu.com)* UPDATED: NOVEMBER 10, 2022

Crisil said the assessment is based on its study of the top 18 states (Maharashtra, Gujarat, Karnataka, Tamil Nadu, Uttar Pradesh, Andhra, Telangana, Rajasthan, Bengal, Madhya Pradesh, Kerala, Haryana, Bihar, Punjab, Odisha, Chhattisgarh, Jharkhand and Goa), which account for 90% of the aggregate GSDP

States' debt will stay elevated at 30-31% of their gross domestic products this fiscal as they have been borrowing from the markets much beyond their means amid modest revenue growth, a report said on Thursday.

The aggregate indebtedness of States, as measured by debt to gross state domestic product (GSDP), is expected to remain elevated at 30-31% this fiscal, almost similar to 31.5% seen in fiscal 2021-22, Crisil said in a report.

States' indebtedness had risen to a decadal high of 34% in the Covid-hit fiscal 2020-21, after remaining range-bound between 25 and 30% during fiscals 2016-20 before cooling a tad to 31.5% in fiscal 2022, the agency said.

Sticky revenue expenditure and the need for higher capital outlays along with modest revenue growth will keep borrowings up this fiscal, it added, but pointed out that states may get some respite from the Centre's decision to provide ₹1 lakh crore special assistance to them for capital spending on infrastructure and discom reforms.

Crisil said the assessment is based on its study of the top 18 states (Maharashtra, Gujarat, Karnataka, Tamil Nadu, Uttar Pradesh, Andhra, Telangana, Rajasthan, Bengal, Madhya Pradesh, Kerala, Haryana, Bihar, Punjab, Odisha, Chhattisgarh, Jharkhand and Goa), which account for 90% of the aggregate GSDP.

The study shows that states borrow mainly to fund their revenue deficits and for capital outlays.

In fact, these states had a small surplus on the revenue account in fiscal 2022, owing to a healthy revenue growth of 25% buoyed by healthy GST collections, strong devolutions from the Centre, sales tax recovery from fuels and support from the Centre through GST compensation loans.

According to Anuj Sethi, a senior director with the agency, the overall revenue of states is expected to rise 7-9% this fiscal driven by strong GST collections, and healthy central tax devolutions will be the major drivers, like last year. But flat sales tax mop-up from fuels, modest growth in central grants and discontinuation of GST compensation, after June 2022, will moderate their revenue growth.

On the other hand, similar to last fiscal, revenue expenditure, which account for 85-90% of total revenue spends, is set to rise by 11-12%, driven by higher committed expenditure by way of salaries, pensions and debt servicing, essential developmental expenditure such as grants-in-aid, medical and labour welfare expenses, and rising subsidies to the power sector.

Consequently, the revenue account will see a marginal weakening and will collectively see a deficit of ₹0.8 lakh crore (0.3% of GSDP) this fiscal. In addition, states will need to borrow to fund roads, irrigation, rural development etc.

States have budgeted an ambitious 40% capital outlay growth to ₹6.4 lakh crore this fiscal, but the agency sees capital outlays rising by only 15-17%, given their past track record. Nevertheless, the ₹1 lakh-crore central assistance in the form of 50-year interest-free loans to states will help partially meet capital outlay targets. Also, this loan is not counted towards the borrowing limit of 3.5% this year.

According to Aditya Jhaver, a director with the agency, the overall balance sheet borrowings of states and off-budget borrowings like guarantees to the power sector, irrigation entities etc. are likely to increase by ₹6.5 lakh crore to ₹66.5 lakh crore this fiscal, which will leave their indebtedness elevated at 30-31% despite benefitting from the strong nominal GSDP growth expectations this fiscal. https://www.thehindu.com/business/modest-revenue-growth-higher-capital-outlays-to-keep-states-debt-high-at-30-31-this-fiscal-report/article66121559.ece

6. Significant inefficiencies: RBI report on municipal corporations *(indianexpress.com)* November 11, 2022

"Most municipalities only prepare budgets and review actuals against budgeted plans but do not use their audited financial statements for balance sheet and cash flow management, resulting in significant inefficiencies," the report said.

The Reserve Bank of India (RBI) has highlighted several lacunae in the working of municipal corporations, stating that there has been no appreciable improvement in their functioning despite institutionalisation of the structure of local governance in India.

"The availability and quality of essential services for urban populations in India has consequently remained poor," the RBI said in a report on municipal finances.

"Most municipalities only prepare budgets and review actuals against budgeted plans but do not use their audited financial statements for balance sheet and cash flow management, resulting in significant inefficiencies," the report said.

The RBI has said municipal corporations should adopt sound and transparent accounting practices with proper monitoring and documentation of various receipt and expenditure items. Central and State governments in India finance their deficits primarily through market borrowings – States and UTs finance around 85 per cent and the Central government finances around 61 per cent of their gross fiscal deficit through market borrowings, it said.

MCs should explore different innovative bond and land-based financing mechanisms to augment their resources, the RBI report said.

While the size of the municipal budgets in India are much smaller than peers in other countries, revenues are dominated by property tax collections and devolution of taxes and grants from upper tiers of government, resulting in lack of financial autonomy, it said.

MCs' committed expenditure in the form of establishment expenses, administrative costs and interest and finance charges is rising, but capital expenditure is minimal, the report said. "MCs mostly rely on borrowings from banks and financial institutions and loans from centre/ state governments to finance their resource gaps in the absence of a well-developed market for municipal bonds," it said.

The rapid rise in urban population density, however, calls for better urban infrastructure, and hence, requires greater flow of financial resources to Local governments, the RBI report said. "With own revenue generation capacity of municipal corporations declining over time, dependence on the devolution of taxes and grants from the upper tiers has risen. This calls for innovative financing mechanisms," it said.

The RBI said state governments have not set up state financial commissions (SFCs) in a regular and timely manner even though they are required to be set up every five years. Accordingly, in most of the States, SFCs have not been effective in ensuring rule-based devolution of funds to Local governments, it said.

There are several reasons for delay in setting up of SFCs: SFCs on an average take around 32 months to submit their reports, resulting in an average delay of about 16 months. State

governments take considerable time in tabling the action taken report (ATR) in State legislatures (the average time taken by State governments to table the ATR is around 11 months).

According to the report, municipalities in India need to balance their budgets by law, and any municipal borrowing needs to be approved by the State government. Municipal revenues/expenditures in India have stagnated at around 1 per cent of GDP for over a decade. In contrast, municipal revenues/ expenditures account for 7.4 per cent of GDP in Brazil and 6 per cent of GDP in South Africa. It has been stated that in order to improve the buoyancy of municipal revenue, the Centre and the States may share one-sixth of their GST, the report said. https://indianexpress.com/article/business/significant-inefficiencies-rbi-report-on-municipal-corporations-8261760/

7. 'India's urban local bodies among weakest globally': RBI decries reliance on state, central grants *(theprint.in)* November 11, 2022

Municipal corporations need innovative alternative sources of financing to cater to increased infrastructural demands, says report by RBI.

The Reserve Bank of India has raised concerns over the state of municipal finances in India, especially of urban municipalities, saying that they are becoming increasingly dependent on grants from state and central governments rather than relying on their own revenues.

This is to the detriment of these municipalities' abilities to perform their functions effectively, the RBI said in its Report on Municipal Finances, released Thursday.

"ULBs (urban local bodies) in India are amongst the weakest globally in terms of fiscal autonomy with elaborate state government controls on their authority to levy taxes and user charges, setting of rates, granting of exemptions, and borrowing of funds as well as on the design, quantum and timing of inter-governmental transfers," the report said.

"The absence of buoyant revenue handles, excessive reliance on grants from the central and state governments, and inability to autonomously access capital markets have weakened the ability of ULBs to fulfil their mandated functions," it added.

The report went on to say that while the share of ULBs' own revenues (those they can raise on their own from tax and non-tax sources) has been declining, the share of government transfers has been increasing — which indicates a growing fiscal dependency on such grants from higher levels of government.

"Empirical evidence has shown that greater dependency of local governments on upper tiers for meeting their expenditure needs makes them more vulnerable and less efficient," the RBI added.

Data from 201 municipal corporations

Looking at the finances of 201 municipal corporations across the country, the RBI noted that there has been "no distinct rise in overall municipal revenue in India which remained broadly unchanged from 1946-47".

Municipal revenues/ expenditures in India have stagnated at around 1 per cent of GDP for over a decade, the report said. In contrast, municipal revenues/ expenditures account for 7.4 per cent of GDP in Brazil and 6 per cent in South Africa.

"It has been stated that in order to improve the buoyancy of municipal revenue, the Centre and the states may share one-sixth of their GST revenue with the third tier," the report said.

The weakness of urban municipalities' own revenues has also meant that the services they provide have suffered, the RBI said.

"Overall, despite institutionalisation of the structure of local governance in India, there has been no appreciable improvement in the functioning of municipal corporations," the report said. "The availability and quality of essential services for (the) urban population in India has consequently remained poor."

However, the rapid rise in urban population density has meant that urban infrastructure needs to improve significantly, which would require a greater flow of financial resources to the local governments. This calls for innovative financing mechanisms, the RBI said.

Alternative Sources of Financing

The RBI has said that there are several ways for municipalities to tap alternative sources of financing, including credit from banks, raising funds from the bond market, and pooled financing, where smaller ULBs' access to the capital market can be enhanced through a common bond issued by pooling the resources of several local bodies.

"In the recent period, there has been a resurgence of municipal bond issuances in India, with nine MCs raising around Rs 3,840 crore during 2017-21," the report adds. The nine corporations are: Ahmedabad, Andhra Pradesh Capital Region Development Authority, Bhopal, Ghaziabad, Greater Hyderabad, Indore, Lucknow, Pune, and Surat.

"Local governments can also tap the capital market by issuing municipal bonds," the RBI suggested. "General obligation bonds issued by them are not secured by any asset but are backed by the issuer's 'full faith and credit', with the power to tax residents to pay bondholders."

"On the other hand, revenue bonds are backed by earnings/ accruals from a specific project such as highway tolls or lease fees," it added. "A hybrid mechanism is also feasible whereby the general revenue of the MC (municipal corporation) is used as a backup to service the bond in case user charges are insufficient."

In addition, the RBI said that Indian municipal corporations take a leaf from China's book and create special purpose vehicles (SPVs) to raise funds.

"MCs can choose to finance through special purpose vehicles and state-pooled finance entities," the report said. "For example, China's Local Government Financing Vehicle (LGFV) is an investment company that sells bonds in the bond markets for financing real estate development and other local infrastructure projects."

Whatever the solution chosen, the need for one is urgent, the RBI cautioned.

“As the demand for infrastructure grows among Indian cities, MCs must further explore ways to reinvigorate and foster alternative and sustainable resource mobilisation through municipal bonds,” the report said. “Policies to improve the environment for financial investment through sound and efficient regulation, greater transparency, and better governance can help nurture a vibrant municipal bond market.”

Listing municipal bonds in the stock exchanges could pave the way for developing the secondary market for municipal bonds in India — a much-needed development, the RBI added. https://theprint.in/india/governance/indias-urban-local-bodies-among-weakest-globally-rbi-decries-reliance-on-state-central-grants/1209487/

8. COP-27: Payback time for rich nations *(indianexpress.com)* Updated: November 11, 2022

At the ongoing COP 27 at Sharm El-Sheikh in Egypt, the IPCC has made it clear that climate catastrophe is unfolding. Global warming has already touched 1.1 degrees Celsius and extreme weather events are becoming more frequent and severe. The current commitments and policies of different nations will lead to a temperature rise of 2.8 degrees by the end of this century. The window of opportunity to restrict global warming to 1.5 degrees seems to be closing rapidly. To avert this, carbon emissions must come down 45 per cent by 2030 and touch net zero by 2050. Is this likely? No, as of now. Is it feasible? Yes.

The G-20 countries account for over 70 per cent of global carbon emissions. What they, especially the US and China, do in the next few years would determine the fate of humankind — their rapid decarbonisation would make the decisive difference. It would also make it easier for the rest of the world to follow. The US, the preeminent global power, has critical responsibility. Its per capita carbon emissions, notwithstanding a sharp and encouraging decline from over 20 to 14.6 tonnes per capita, are still the highest in the world, that too by a wide margin. China is next at 8.4 tonnes per capita while Europe is at 6.8 tonnes per capita.

The problem is that on climate change, the US is internally divided with the Republicans still not seeing the need for immediate action. The US did not join the Kyoto Protocol and President Trump took the country out of the Paris Agreement (facilitated by Barack Obama’s leadership), which it has re-joined under Joe Biden. It took leadership on climate change last year, hosting a global summit, which affirmed the 1.5 degrees goal.

However, it took a year of intense effort and compromise for Biden to get the $369-billion dollar funding required for climate action, far less than what was proposed, and that too as a part of the Inflation Reduction Act. With this, there is a possibility that the US’s climate commitment for 2030 which it announced last year, at COP26, may be achieved. But even that would be far too little. The US must bring down its per capita emissions, first to the current European levels and then further. The new conservative Supreme Court in the US has recently ruled that climate action by the EPA (Environment Protection Agency) to mandate a progressive reduction in carbon emissions — which Obama had initiated, and which was yielding positive results — is legally not permissible without Congressional approval.

Standalone legislation on climate change does not appear feasible for the present. Biden’s electoral campaign promise for the US to have a fossil fuel electricity system by 2035 remains unfulfilled. Unless scientists, climate activists and civil society worldwide succeed in persuading the Republicans to see reason, there is little hope.

China, having become the factory of the world, emits the most. It has declared 2060 as the year to achieve net zero after the West pledged carbon neutrality by 2050. It needs to reach net zero much earlier. China has the capacity to do so, having acted strategically, and developed technologies and competitive manufacturing capacities across the entire range of renewable energy sectors, ranging from solar panels to electric vehicles (EVs) and batteries.

Electricity is the low-hanging fruit for decarbonisation. Solar and wind are the cheapest sources of electricity. Germany, which already gets 40 per cent of its electricity from renewables, has decided to have a fossil fuel-free electricity system by 2035. So has California in the US.

India has displayed commendable climate responsibility with Prime Minister Modi announcing at COP26 that by 2030, the country would create 500GW of fossil fuel-free generation capacity and meet half of our energy needs from renewables. The energy crisis in Europe, with gas prices having risen manifold, has made the economic case for faster movement towards renewables more compelling. The advanced economies — the US, Europe, China, Japan and South Korea — should ideally aim at achieving carbon-free electricity systems by 2030. This would undoubtedly be challenging, but not beyond the technological capacities of these economies. It would also be a strong antidote to the impending recessions in different parts of the world by creating demand and jobs. However, the interests of the powerful fossil fuel industry in postponing this transition would have to be overcome.

Electric vehicles (EVs) have arrived and are gaining market share across the world. Europe has decided to end the sale of internal combustion engine vehicles by 2035 while the UK has already set 2030 as the deadline for this target. The increasing share of renewables in the electricity system will decarbonise EV transport.

High gas prices are pushing heating systems to shift to electricity. As transport and heating systems turn to electricity, which gets decarbonised at the same time, the emissions reduction needed to keep global warming closer to the 1.5 degrees target could become feasible. That said, many industrial processes cannot run on electricity. Nor can air transport or shipping. These "hard to abate sectors" continue to present technological challenges in doing away with the use of fossil fuels. Hydrogen can be a substitute for fossil fuels. Green hydrogen made from renewables is one such solution. Costs of this alternative fuel are declining. As breakthroughs occur, making industrial-scale deployment feasible for such technologies, the pathway to net zero would begin to get clearer. A rapid transition can be promoted by having lower tax rates for goods whose production has low to zero carbon emissions. A differential import duty structure would incentivise the transition in exporting countries.

The advanced industrial economies need to act now to decarbonise rapidly. Their actions must match rhetoric. That is the only hope to restrict global warming to 1.5 degrees. https://indianexpress.com/article/opinion/columns/cop-27-payback-time-for-rich-nations-8261667/

9. COP27: Financing a Just Transition--Lessons for India from South Africa *(indiaspend.com)* November 11, 2022

Expectations run high for a Just Energy Transition Partnership between India and G7 countries at COP27. But there are many lessons for India to consider from a similar partnership between South Africa and G7 countries, experts tell us

In June 2022, a few months ahead of the world's largest global climate conference, the 27th Conference of the Parties (COP27), G7 countries--which includes Germany, Italy, Canada, France, Japan, the UK and the US--said that they will launch a Just Energy Transition Partnership (JETP) with India at COP27. The partnership aims to reduce dependency on coal and finance the rapid deployment of clean energy in India.

Just Energy Transition Deals, that ensure transition to renewable energy is inclusive and protects workforce employed in fossil fuel-related sectors, are one of the major topics of discussion at COP27 in Sharm-El-Sheikh in Egypt, and will play an important role in financing transition to renewable energy for some developing countries, such as India and Indonesia.

G7 countries and South Africa had signed a similar Just Energy Transition Partnership at COP26, that was widely perceived to be a key factor in South Africa's decision to reduce its dependence on coal. The deal with India is expected to be a major step in building the South African model, according to experts.

An analysis of South Africa's deal, signed last year, shows that India needs to think through the investment needed for a Just Transition before signing a deal, both at the level of the Union government and for the states, and negotiate a deal that works in its favour especially as its coal plants are not as old as South Africa's, experts said.

A just transition

Just Transition ensures that the leap towards decarbonisation and transition away from fossil fuels and towards renewable energy is socially and economically just. This would include, economic and industrial restructuring, reskilling of the workforce that was employed in the coal economy, repurposing of the land and guaranteeing responsible social and environmental practices, among other things, we reported in August 2021.

A Just Transition is a "systemic transition, not just about shutting down coal, or oil and gas, but how do you build a new economy and how do you use the funds or signal to the market that you are ready for the once-in-a-century opportunity to enter a new industrial age", said Kartikeya Singh, director of the Global Energy Futures Initiative at the California- based Climate Imperative Foundation that provides technical support and expertise on climate change.

Last year, at COP26, a significant development took place, when rich countries belonging to the G7 group announced initial finance to the tune of $8.5 billion to South Africa to help wean off coal and enable its transition to renewable energy.

"For developed countries, there is a lot of pressure domestically and internationally to take climate action. But it is also challenging for them to take bold climate action domestically because there is a large constituency of people, stakeholders and politicians who are deeply embedded in the fossil fuel economy," said Sandeep Pai, senior research lead with the Global Just Transition Network at the Washington DC-based Center for Strategic and International Studies, a policy research organisation with focus on international relations, energy, trade, finance and geo-strategy. "So investing and supporting a coal-dependent developing country to transition away from coal is a fantastic way for them [developed countries] to showcase climate leadership at a global stage."

The concept of 'Just Transition' has been increasingly featured in policy and political discourses at international level. For instance, India and the US have a bilateral Strategic Clean Energy Partnership that includes supporting a just energy transition to meet "climate and energy challenges". India and Germany also have bilateral agreements to support "just energy transition", which includes massive scale-up of renewable energy, green grids and storage facilities.

South African Partnership: Developments Since COP26

South Africa accepted the Just Energy Transition Partnership under a very different set of circumstances than India, said Pai.

"South Africa's coal fleet is very old--over 40 years, on average. It is a normal practice to run power plants over 40 years but requires major retrofitting which is costly," Pai told IndiaSpend. "South Africa's power utility company ESKOM, which holds a monopoly in the power sector, has been debt-ridden. So South Africa has been willing to participate in partnership."

However, a year since the South African partnership was announced, at COP27, the government reported in its investment plan that only 3.8% ($329 million of the $8.5 billion) of the finance will be in the form of grants, the rest of which (96%) will be in the form of concessional and commercial loans and guarantees. "Commercial loans are like standard market loans while concessional loans have a subsidised interest rate but it can come with conditions. For instance, conditions like giving contracts to certain companies etc.," said Pai.

A statement from the UK government published in November 2022, claimed that the initial "funding package (of $8.5 billion) will be disbursed through various mechanisms over the 5-year period". But South Africa's own assessment of the investment required says that it needs $98 billion for the first five years of the 20-year energy transition. This is more than 11 times the amount G7 countries have promised for the first five-year phase.

"What we learned from the South Africa experience is that you need to be ready. The COP presents a great opportunity to make big announcements but the reality was that there was more work that was done after the announcement… But there was no detailed-enough plan before announcement and details were filled up after the announcement," noted Singh

Over the last one year, the entire process of negotiations also helped South Africa think through the just transition ideas. As Pai told us "the negotiations helped South Africa brainstorm on investment plans, galvanise communities and groups with different ideas of just transition".

India has low interest in a finance particularly for just transition

Unlike South Africa, India's coal power plants are on average only 13 years old, according to 2020 data by the International Energy Agency. And 70% of India's energy needs are met by coal. India's coal demand is also projected to increase by 63% to 1.3-1.5 billion tonnes by 2030 despite a big push given to renewable-based energy sources, according to the Ministry of Coal in a statement from March 2022.

"India's coal sector is new and highly profitable. It does not have a debt problem like South Africa since state-owned banks fund the sector. So it is not bothered by foreign investment. India has never asked for just transition-specific finance, it always asked for climate finance

more broadly. So the just energy transition partnership with India is largely driven by rich countries, India's interest so far has been very low," Pai said.

Nonetheless, such a deal will be a good way for India to start thinking ahead on just transition, with lessons from South Africa, Pai told us.

An Iforest report published in October 2022 noted that the existing policy framework in India around mine closure, labour, land transfer and repurposing and financial issues around energy transition are inadequate in the context of a "planned coal transition given the climate crisis".

"India needs a taskforce to have everyone on the same page--the power ministry, the MNRE [Ministry of New and Renewable Energy], the coal ministry, all the central PSU's, and the state government. Because, for India the story is about how you will fill the budgetary gap that will be the result of no longer depending on revenues from coal," said Singh. "How do we quantify how much money India needs, for instance, for pension funds to be secured for early retirement of workers or secure affordable electricity to retire some amount of coal-based electricity? A taskforce to think about these things is a prerequisite to then approach donors to support transition."

In 2021, the Ministry of Coal started deliberating on the formulation of a "Mine Closure Framework" emphasising institutional governance, people and communities, and environmental reclamation and land repurposing on the principles of just transition.

We reached out to the Ministry of External Affairs (MEA), Ministry of Power and Ministry of Coal for their comments. According to experts we spoke to, the Ministry of Power and MEA are negotiating the partnership and the Ministry of Coal is not fully involved in the negotiations, even when the major purpose of the deal is phasing down coal.

"For a country as large as India, there cannot be a single Just Energy Transition partnership. There need to be state-level partnerships, or transition finance mechanisms for large central public sector units to stay profitable and manage their transition from coal to alternative sectors," stated Singh. "So investment plans will need to be readied for all these entities."

Currently, there are very few examples of investments estimated for phasing down the coal sector in India. In 2019, the Gujarat Energy Research and Management Institute (GERMI) did an analysis of the roadmap for Gujarat's energy transition after the CM's announcement of no new coal power plants. The report noted an approximate cost of $3.5 billion for the state to retire its thermal power plants

"This cost would be much higher for states heavily invested in coal such as Jharkhand and Chattisgarh," said Singh. "We need similar assessments for other states as well."

The Just Transition deal is likely to be advanced in the upcoming days of the Conference. "India may also decide to wait for an opportune time and negotiate the deal in the lead up to the G20 conferences next year," said Singh of the Climate Imperative Foundation. India will host the G20, or Group of 20 countries, as its president from December 2022 to November 2023. https://www.indiaspend.com/cop27/financing-a-just-transition-lessons-for-india-from-south-africa-841990

10. Moody's cuts India's GDP growth projection for 2022 from 7.7% to 7% *(business-standard.com)* November 11, 2022

Moody's on Friday slashed India's GDP growth projections for 2022 to 7 per cent from 7.7 per cent earlier as the global slowdown and rising domestic interest rates will dampen economic momentum.

This is the second time that Moody's Investors Service has cut India's growth estimates. In September, it had cut projections for the current year to 7.7 per cent from 8.8 per cent estimated in May.

"For India, the 2022 real GDP growth projections have been lowered to 7 per cent from 7.7 per cent. The downward revision assumes higher inflation, high-interest rates and slowing global growth will dampen economic momentum by more than we had previously expected," the agency said in its Global Macro Outlook 2023-24.

Moody's expects growth to decelerate to 4.8 per cent in 2023 and then to rise to around 6.4 per cent in 2024.

It said the global economy is on the verge of a downturn amid extraordinarily high levels of uncertainty amid persistent inflation, monetary policy tightening, fiscal challenges, geopolitical shifts and financial market volatility.

Global growth will slow in 2023 and remain sluggish in 2024. Still, a period of relative stability could emerge by 2024 if governments and central banks manage to navigate their economies through the current challenges, Moody's added. https://www.business-standard.com/article/pti-stories/moody-s-cuts-india-s-economic-growth-projections-to-7-pc-for-2022-122111100715_1.html

11. Indian Army issues tender for 47,627 bulletproof jackets for troops *(indiatoday.in)* UPDATED: Nov 11, 2022

The Indian Army has issued a tender for 47,627 bulletproof jackets (BPJs) for its frontline troops which should be able to protect them from the lethal steel core bullets.

The Ministry of Defence issued the tender for the jackets under Make in India and the procurement would be done in phases over a 12 to 24-month period after all the modalities have been finalised and user trials concluded, defence sources told India Today.

The specifications listed by the Army state that the BPJs should be able to protect a soldier against 7.62 mm armour piercing rifle ammunition as well as steel core bullets fired from a distance of 10 metres. The BPJs required for protection against armour piercing ammunition, whose velocity is higher than that of other bullets, should weigh less than 10 kg, while the weight of those meant for use against steel core rounds should not exceed 11.8 kg in the case of large-sized jackets.

A shortage of bulletproof jackets has been dodging the army for many years and in the past, the procurement process, as well as trials, have generated controversy pertaining to the source as well as the quality. The Indian Army is expected to issue another tender for full-body protection bulletproof jackets which would be produced by one of the selected Indian defence

industry partners. https://www.indiatoday.in/india/story/indian-army-tender-bulletproof-jackets-troops-2295892-2022-11-11

12. Indian Railways accomplishes electrification of 82pc of total broad-gauge network *(economictimes.indiatimes.com)* NOVEMBER 10, 2022

The Indian Railways (IR) on Thursday said it achieved 1,223 route kilometres (RKMs) of electrification till October during the financial year 2022-23 (FY23), against 895 RKMs during the corresponding period of FY2021-22. It said electrification grew 36.64 per cent more than the previous year figures of the corresponding period.

Indian Railways embarked upon an ambitious plan of electrifi cation of its comple te broadgauge networ k which would not only result in better fuel energy usage resulting in increased throughput, reduced fuel expenditure but also savings in precious foreign exchange, according to the ministry of railways statement.

The railways said record electrification of 6,366 RKMs was achieved in Indian Railways' history during 2021- 22. Earlier, highest electrification was 6,015 RKMs during 2020-21.

As on October 31, out of 65,141 RKMs of BG network of IR (including Konkan Railway Corporation Limited), 53,470 BG RKMs have been electrified, which is 82.08 per cent of the total BG network, according to the statement.

As of April 1, 2022, IR has electrified 80 per cent or 52,247 km (32,465 mi) of the total broad-gauge route kilometres. Indian Railway uses 25 kV 50 Hz AC traction on all its electrified tracks. Railway electrification in India began with the first electric train, between Chhatrapati Shivaji Terminus and Kurla on the Harbour Line, on February 3, 1925, on the Great Indian Peninsula Railway (GIPR) at 1500 V DC.

According to the data recently released by the Ministry, currently, 40 railway stations are being redeveloped to provide modern amenities. Fourteen railway stations are under tendering stage for redevelopment and they are likely to be awarded in the next five months. https://infra.economictimes.indiatimes.com/news/railways/indian-railways-accomplishes-electrification-of-82pc-of-total-broad-gauge-network/95426767

13. Make in India? It will take more than subsidies *(moneycontrol.com)* UPDATED: NOVEMBER 11, 2022

Last week, while inaugurating a new aircraft factory in western India, Prime Minister Narendra Modi returned to a slogan he coined a few months after taking power in 2014: “Make in India.” This time, however, he added: “Make for the world”.

This isn’t the first time Modi has gestured toward India’s need to increase manufacturing exports. Still, the rhetorical emphasis is welcome, given that India’s pitch to investors has typically focused on the size of its domestic market rather than on how easy it is to set up shop and export from the country.

Partly that’s because it isn’t yet as easy as it should be. The factory Modi was inaugurating will make Airbus SE’s C-295 military transport in collaboration with the Tata Group. While India has promised to buy 40 planes, no export deals have been announced. The government’s boast

that most of the supply chain for the aircraft would be located within India (underscored by Tata Sons Ltd. Chairman Natarajan Chandrasekaran's claim that the company would "take aluminum ingots at one end of the value stream and turn it into an Airbus") reveals that Indian decision-makers still don't understand the nature of modern, decentralised supply chains.

In fact, the controversies surrounding the Tata-Airbus deal — and, in particular, its location in Modi's home state of Gujarat — are revealing of how India's latest plans to become a manufacturing superpower might struggle.

India doesn't have real industrial policy as such. What it has instead are multiple government schemes, costing about Rs 2 trillion, for "production-linked incentives" (PLIs). These are effectively subsidies or special treatment for large investments in particular sectors — 14 of them, at last count.

Some of these targeted sectors have obvious strategic value, including semiconductors, solar modules, mobile handsets, and batteries. Others have clearly been chosen because will employ lots of people — textiles, for example. Some are simply areas where India has done well in the past, such as automobile components. Given this muddled set of priorities, it isn't surprising that multiple other sectors are also lobbying for subsidies.

There isn't a manufacturing investor in the world who would turn down a government subsidy. But industrial policy is supposed to be about more than that; it's meant to clarify and cement government priorities. Companies are supposed to be able to read an industrial policy, and have faith that the government's commitment to a sector is firm.

The PLI programmes don't quite achieve that. For example, one of the sectors targeted for incentives was specialty steel. Government assistance for lucky steel producers came with built-in production, and export targets. Yet, a few months after setting the targets, the same government unexpectedly introduced an export tax on those same steel products. It's hard to sell PLIs as a sign of government commitment after mix-ups like that.

The other reason that the PLIs work to an extent is that companies hope the subsidies will significantly de-risk investment in a targeted sector. It's common for foreign investors to go into business in India with a local partner; surely a government that says it will put millions into your plant is the best partner of all? Once the Union government has a stake in a particular project, some of the obstacles to doing business in India — meddling bureaucrats, political whims, obstructive regulators — might be cleared away.

What we have seen, however, is that the government is not exactly a silent partner. Until recently, most observers were under the impression that the Tata/Airbus project would be located in Maharashtra. News that it would go to Gujarat instead led to a political spat. One former state minister claimed that the companies had told local officials that they had no choice in where they set up shop — the location would be up to Modi's government.

Tempers in the two states were short partly because this came very soon after Maharashtra had lost another, even bigger PLI project — an ambitious chip fabrication plant set up by Foxconn and Vedanta — to Gujarat. Here, too, the preferences of the Union government — which has set aside up to $10 billion for semiconductor subsidies — would likely have been crucial.

Modi has talked often about "cooperative competitive federalism" — the idea that India's states would freely compete for investors and raise each other's standards in doing so. When it comes to PLI choices, however, New Delhi appears to have a thumb on the scales.

A real commitment to export-led manufacturing growth would require greater trust in investors. The government should spend less on subsidies, but make sure that investors have free choice as to where and how they operate. The PLI scheme may give India one or two success stories — in mobile handsets, for example. But, unless it is accompanied by a shift in the government's mindset, it's not going to turn India into the next China. https://www.moneycontrol.com/news/opinion/make-in-india-it-will-take-more-than-subsidies-9496351.html

14. A way out of Kerala's fiscal vulnerability *(thehindu.com)* UPDATED: NOVEMBER 11, 2022

Increasing incremental borrowing along with a growing level of outstanding liabilities, off-budget borrowings, and mounting guarantees foretell a poor situation, but there could be solutions

Kerala's fiscal problems have been in the news for several years now. The parlous impacts of the two floods (2018 and 2019) and the COVID-19 pandemic have worsened the situation. In this context, the obfuscating assertions and counter postures on the political chess board of Kerala about the fiscal management of the State demand objective scrutiny. A recent Reserve Bank of India study (RBI Bulletin, June 2022) on the fiscal vulnerability of Indian States undertaken in the backdrop of the Sri Lankan debt-default crisis of May 2022 has identified Kerala among the five most-indebted States of India, the others being Punjab, Rajasthan, Bihar and West Bengal. This article attempts to shed light on Kerala's fiscal vulnerability and offer some suggestions for improvement.

Understanding the fiscal stress

In an expanding economy, debt is not a sin and becomes a problem only when it turns unsustainable. A government is vulnerable when it finds it difficult to meet its fiscal obligations efficiently. As per the 2022-23 Budget, the public debt/GSDP ratio of Kerala is 37.2% which is clearly high particularly when compared to the average of 14.6% for the 1981-91 decade. That the Fourteenth Finance Commission fixed the upper limit at 25% underscores the vulnerability. Only Kerala, Jharkhand and West Bengal crossed the debt target stipulated by the Fifteenth Finance Commission (FC-15). That the yield rate to be paid for the special development loans issued by the State auctioned by the RBI is pegged high (8.3% in 2018-19. and around that now) keeps Kerala in a bad light. The increasing incremental borrowing along with the growing level of outstanding liabilities, off-budget borrowings, and mounting guarantees foretell a poor situation.

Kerala has already breached several fiscal norms. During the last five years, the famous Domar stability rule — namely that interest rate adjusted for inflation should be lower than the GSDP growth rate — has been broken except for 2019-20 and 2020-2021. The condition that the increase in nominal GSDP growth rate should be higher than the debt growth rate is also violated. During the last 10 years from 2013-14 through 2022-23, except for two years the rate of debt growth exceeded GSDP growth. The growth dynamics of the State needs to be closely investigated given its admittedly high per capita consumption, high savings (bank deposits in

March 2021 were above ₹6.05 trillion, with an non-resident Indian component of ₹2.29 trillion) along with its weak investment trajectory.

The increase in the interest payments/revenue receipts (IP/RR) ratio from 16.86% in 2014-15 to 21.49% in 2020-21 and the estimated 19.36% for 2022-23 does not portend a healthy situation. If we accept the FC-14 IP/RR ceiling of 10%, Kerala is surely on a sticky wicket. The own tax revenue mobilisation needs drastic improvement to save the situation. In 2010-11, Kerala's per capita own tax revenue was a remarkable ₹6,521, while the all-States average was ₹3,278, nearly 100% below. However, for 2020-21, Kerala's per capita tax is ₹12,929, with an all-States average of ₹9,162, the difference falling to 41%. Evidently, the tax effort of Kerala has not improved compared to that of other States. The own tax revenue for 2020-21 of Kerala, at ₹47,661 crore was lower by a huge margin of ₹2,662 crore compared to 2019-20. The 2021-22 (RE) shows a shortfall of ₹13,465 crore vis-à-vis the Budget estimate. The budgeted tax revenue for 2022-23 of ₹74,098 crore is unlikely to be achieved. The tax performance of the State leaves many things to be desired.

That the budgeted non-tax revenue of ₹11,770 crore for 2022-23 is ₹495 crore lower than the actual of 2019-20 is disquieting. The insinuating assertion by some that the State government relies heavily on lotteries is untenable. In the pre-COVID-19 2019-20, the revenue from lotteries was ₹9,973.67 crore, but the gross expenditure on it was ₹8,475.3 crore with a net income of only ₹1,498.3 crore; the corresponding figure in the present Budget works out only to a measly ₹77 crore. That the 133 public sector undertakings with an investment of ₹20,025 crore (as on March 31, 2018) could contribute only a sum of ₹110 crore in 2019-20, and even in 2022-23 (BE) only ₹257 crore to the own source revenue kitty, tells a dismal story.

Decline in capital formation

The quality of spending is a critical variable because it shows prudent fiscal management and good governance. The fiscal norm of generating revenue surplus is almost impossible for Kerala with a huge committed expenditure comprising salary, pension and interest payments, which in 2017-18 reached 80.5% of total revenue expenditure and currently running at 70.7%. A five-yearly salary and pension revision along with an escalator clause to protect the real income of the civil servants go with practices such as providing pension to the staff of Ministers for a minimum service of two years (which arguably has to be extended to all civil servants) etc. and can exist comfortably only in Alice's wonderland. It is no wonder then that the fiscal space for development expenditure for Kerala with 51% (five- year average, 2017- 22), is way below that of Madhya Pradesh (73.4%), Rajasthan (71.4%) and Bihar (71.3%) — the details are in the RBI Bulletin, June 2022, p.119.

There has been a visible decline in capital formation in crucial sectors such as education, health, infrastructure, agriculture and the like. To be forewarned is to be forearmed. Although the analysis given is suggestive of solutions, the outcomes of continuing social failures and policy miscarriages have to be addressed for any rational rebuilding. Rent-seeking politics, endemic corruption, ecological overkill, a pathological disregard of the rule of law, a visible decline in the public action and public reasoning tradition, a decline in the quality of public services such as health, sanitation, solid waste management, higher education and roads (ubiquitous pot-holes are scandalous), pervasive drug and liquor addiction, an increase in avoidable deaths and so on cannot be solved by public relations managers, but only through informed social choices.

Course correction for the State

To augment its own source revenue, the State has to streamline its tax administration to reduce arrears and evasion and tap its tremendous non-tax revenue potential. Property tax could have been easily doubled. Non-tax revenue can be stepped up by enhancing fees and user charges along with visible quality improvements. Without noticeable quid-pro-quo in services, users will naturally resist hikes. The dividend from the public sector undertakings can be increased if there is efficient rationalisation of management. Unbundling of land values can yield good income. The Kerala State Road Transport Corporation (KSRTC) is a millstone around the fiscal neck of Kerala. Monetisation of the land and asset values of the KSRTC along with restructuring of management can be a solution. Permitting private universities of world class standards can arrest the exodus of brilliant students. Why Kerala with a fabulous remittance inflow since the mid-1970s has failed to be a happy place for the enterprising private sector to create wealth for the State is a moot question for which honest answers elude us. A meaningful pension reform including raising retirement and recruitment ages can make big changes. If the Kerala government wants to put its fiscal house in order, it has to experiment with zero-base budgeting or at least with performance budgeting with determination. Departments have to improve their accountability significantly.

In the fiscal federal polity of India, with yawning mismatches between resources and responsibilities, all inter-governmental transfers must be normative and formula-based. Central transfers are entitlements and certainly not largesses. That 35% of the transfers are still outside the Finance Commission is against the canons of cooperative federalism.

In sum, Nava Kerala cannot be built on a fragile fisc, and rhetoric is not a resounding solution. https://www.thehindu.com/opinion/lead/a-way-out-of-keralas-fiscal-vulnerability/article66120929.ece

15. Over 130 Sq Km Forest Land to Be Diverted for Great Nicobar Island Megaproject *(thewire.in)* Nov 10, 2022

The project by Andaman and Nicobar Islands Integrated Development Corporation will see the felling of nearly 8.5 lakh trees.

The Union environment ministry has in principle granted its permission for the diversion of nearly 130.75 sq km forest area in the Great Nicobar Island for a developmental project, where a transshipment port, an airport, a power plant and a Greenfield township will come up. The environmental costs of the project, however, are massive, The Hindu reported.

Estimated to cost Rs 72,000 crore, the project by Andaman and Nicobar Islands Integrated Development Corporation (ANIIDCO) will see the felling of nearly 8.5 lakh trees. About 15% of the 900 sq km of the thickly forested area – which serves as habitat to rare flora and fauna on the island – will be affected. The proposed diversion of forest land is the largest in recent times, for it is about a quarter of all the forest land diverted (554 sq km) in the past three years across the country as per the information revealed by the government in Lok Saba in July.

According to the Union ministry of environment, forest and climate change (MoEFCC) own estimates, the proposed deforestation exercise will affect what is primarily evergreen tropical forests with high biological diversity and also high endemism. The official document of the ministry states that the island is home to the best-preserved tropical forests in the world, where

about 650 species of flora and 330 species of fauna are found. What's more, it is also home to endemic species such as the Nicobar shrew, the Nicobar long-tailed macaque, the Great Nicobar crested serpent eagle, the Nicobar paradise flycatcher and the Nicobar megapode, among many others.

The clearance for the project came from the Union environment ministry's forest conservation division on October 27, after a "careful examination" of the October 7, 2020 requisition submitted by the island administration. Assistant inspector general of forests, Suneet Bhardwaj, who processed the requisition at the Union environment ministry level said the permission was "on basis of the recommendations of the Forest Advisory Committee (FAC) and its acceptance by the competent authority in the ministry".

According to the available details, the application was processed after an elaborate plan for "compensatory afforestation" was drawn up by the project authorities involved in the matter. The "compensatory afforestation" will be taken up on a "non-notified forest land" in Haryana, but not on the island where forested land will be affected. For an environment management plan (EMP), Rs 3,672 has been earmarked under the developmental project.

However, the final environmental impact assessment (EIA) report of the project estimated the cost of this compensatory afforestation to be Rs 970 crore. The EIA was prepared in March 2022 and was accepted by the Union environment ministry's expert appraisal committee.

The final EIA report, however, said the compensatory afforestation will be taken on 260 sq km of land in Madhya Pradesh. No details are available as to why it was changed from Haryana to Madhya Pradesh except for stating that it was due to "recommendations of the FAC". However, no details or minutes of the meeting where such a decision was made at the ministry level are available on the website of the Union environment ministry. Currently, what stands, as of date, is a letter from the Andaman and Nicobar Forest Department certifying that the Government of Madhya Pradesh has submitted the details for compensatory afforestation.

According to The Hindu, no information is forthcoming from the officials in the Union environment ministry on what necessitated the change in the location of the compensatory afforestation programme. On the other hand, a right to information (RTI) application, filed in October, with the Madhya Pradesh government was also turned down under Section 8.1 (a) of the RTI Act, citing security, strategic, scientific or economic interests of the state.

Environmental activists, meanwhile, accused authorities involved in the matter of flouting norms pertaining to forest conservation. Debi Goenka, an executive trustee of the Conservation Act Trust, pointed to the news outlet the "neglect" of multiple clauses of the Forest Conservation Rules and Guidelines in the de-reservation process, and also the violation of a Supreme Court order of November 13, 2000 (reiterated on February 9, 2004) which ordered no further "de-reservation of forests/sanctuaries/national parks".

"It is unfortunate that we hear of the destruction of some of the finest tropical forests in the country at the same time as our environment minister is telling the world at the ongoing United Nations climate conference in Egypt that India is 'a part of the solution and not the problem'. There is a huge gap here, clearly, between words and deeds," said a researcher on the environmental issues on the condition of anonymity, according to The Hindu. https://thewire.in/environment/great-nicobar-island-project-130-sq-km-forest-area