## NEWS ITEMS ON CAG/ AUDIT REPORTS (10.01.2023)

**1. DEFENCE OFFSETS: AN OVERVIEW** *(firstindia.co.in)* COL ANUPAM JAITLY (RETD) | January 9, 2023

The increasing tensions with China on our Northern Borders and strained relations with Pakistan, the modernization of armed forces demand huge investments by our country year on year forcing India to be a leading importer of defence equipment in the world. As per sources, the Indian Defence market is anticipated to record a Compound Annual Growth Rate of over 4% between 2020 and 2026. This, in turn, is likely to benefit self-sufficiency and 'Make in India' Defence Projects. So, what is meant by Defence offset? In simple words, it is an obligation by foreign suppliers to invest in India and aid the domestic defence industry either through direct investment or by partnering with domestic defence players or by transfer of technology to an Indian defence enterprise. Though the policy for offset in defence deals was initiated in 2005, the first offset contract was made in 2007. However, it was only in 2012 that the policy makers stated the objectives for defence offsets to support capital acquisitions to develop Indian defence industry by fostering development of global competitive enterprises, augmenting capacity for R & D related to defence and finally encouraging development of synergistic sectors like aerospace, and internal security".

As it generally happens, the change of govt in Delhi got the policy tweaked again in 2016 and then in 2020. In 2016 amendment, the foreign vendors were exempted from providing all the details of offset at the time of contract and were given the leeway of declaration either at the time of seeking offset credits or, twelve months before the discharge of offset obligations. But in my opinion, the major change was brought in 2020 which raised the limit of offset obligation of 30% of the cost to the procurements exceeding Rs 2000 crore against the earlier limit of Rs 300 crore. In addition, the changes specified that the clause of offset are non operative if the deals are government-to-government or it is ab initio one vendor deal, or inter-governmental agreements. Nevertheless, all other foreign vendor competitive deals were to continue with the clause of 30% offset. While the govt authorities went gaga on their policy making, the story was not as rosy, if read with the perspective of 'The Comptroller and Auditor General' of our country. Auditors had defined relevant clauses as a mechanism established with a three-fold objectives of firstly, partially compensating for outflow of Indian resources. Secondly, ensuring induction of sophisticated new technology and thirdly, enhancing capacities and capabilities of defence industry in the country. It was considered an obligation on the supplier to either "reverse purchase goods manufactured in India or, execute export orders on such goods."

Though the report submitted by the CAG is not fully in public domain, the sources in media reveal that all is not well in the defence offset deals. From the first contract signed in 2007 until March 2018, CAG said, 46 offset contracts have been signed for Rs 66,427 crore and till December 2018, Rs 19,223 crore worth of offsets should have been discharged. However, the claimed discharge of the offset obligation by the end 2018 was Rs 11,396 crore only. The balance of obligation of Rs 55,000 crore is to be executed by 2024 for which the auditors are not very hopeful. The report further reveals that besides financial failures, the offset policy has also not been successful in acquiring advanced technologies or even significantly enhancing industrial or manufacturing capabilities which is against the stated objectives of the offset policy. There is no doubt that India has giant aspirations for its offset resources. But lamentably, the current state does not appear to be steering the country to its terminal aim of self-reliance in defence production. If I may say, probably we are lacking the required strategic vision and systematised priority for implementing offset policy. As a result, we put the onus of developing offset projects on foreign firms whose natural inclination will never be aligned with our national aims. Moreover, India is not industry ready as on date to absorb large volume of offsets. The country's public and private Sector Undertakings I defence are inefficient and lack adequate infrastructure to accept state of the art technology. This lack of absorptive capacity will for sure stymie our growth in defence industrial development. If we wish to leverage capital acquisitions to develop Indian defence industry, the only way is to augment the capacity for Research, Design, and Development related to defence production and services. https://firstindia.co.in/news/lifeStyle/defence-offsets-an-overview

**2. India conducts annual assessment of its cargo clearance at ports** *(financialexpress.com)* January 9, 2023

As done every year since 2019, India conducts another round of annual assessment to measure release time for exports and imports (EXIM), moving through 15 major ports in the country, in the first week of calendar year.

As the world stares at plausible recession, India is striving to ensure export buoyancy to sustain its economic growth above the trend rate. Notwithstanding India's small share in the world trade, in today's globalised world, the fear of contagion spreading to India merits effective policy response. Towards this objective, Indian Government is pursuing a multi-pronged approach – focusing on free trade agreements and expeditious completion of trade-related infrastructure, including the dedicated freight corridor, "Sagarmala" projects and multimodal parks, besides providing enhanced trade facilitative environment.

India's Export Story: Expeditious regulatory clearance coping with the logistics of uncertainty High trade costs for the EXIM business have been identified as a major bottleneck to international trade, perhaps more so for India and other developing countries. Pursuant to the coming in force of the Trade Facilitation Agreement (TFA) under the aegis of the World Trade Organization, India has fulfilled all its commitments to ensure trade facilitation. In fact, it has gone beyond the TFA in drawing up a more comprehensive time-bound 'National Trade Facilitation Action Plan' that also includes augmentation of physical and IT infrastructure.

Perhaps believing in the philosophy, "what gets measured, gets done", one of the TFA provisions requires regular measurement of trade time, broadly approximated by the average time taken in clearance of export and import consignments. Indian Customs has been at the forefront of using this performance measurement tool, commonly known as the Time Release Study (TRS) for self-assessment and evidence-based policy making, relying on unimpeachable digital timestamps from the customs automated system and supporting IT systems of other stakeholders.

The annual TRS was pioneered at the Jawaharlal Nehru Customs House, the largest Custom House in 2017, focussing initially on imports. It has shown a consistent improvement in import release time from 181 hours in 2017 to 88 hours in 2022, which becomes even more impressive when compared with about 14 days that it took to clear an import consignment in 2010, as per a report by Comptroller and Auditor General of India.

Over the years, India has progressed to conducting a National TRS since 2019 that covers 15 major customs ports in the country, including all the four modes of trade, namely seaport, dry port (inland container depot), airport and land ports. These ports accounts for about 75 percent of the EXIM trade of the country. The ongoing National TRS 2023 study is 4th annual national-level study since 2019 (excluding 2020 because of the pandemic) and covers the export and import documents filed during the first week of the calendar year.

Recognising that the cargo release time depends on a variety of factors, including the mode of cargo movement, National Trade Facilitation Action Plan 2020-23 aims to bring down the import release time to 48 hours for Sea Cargo, Inland Container Depots and Land Customs Stations and 24 hours for Air Cargo and export release time to 24 hours for Sea Cargo, Inland Container Depots and Land Customs Stations and 12 hours for Air Cargo.

The National TRS 2022 had affirmed the direction of the trade facilitative initiatives, including the focus on "Path to Promptness" comprising pre-arrival processing, risk based facilitation, trust-based authorised economic operator programme and coordinated border management through Single Window scheme. The ongoing National TRS 2023 is seeking to explore more nuanced issues and gain deeper insights pertaining to challenges faced by trade that go beyond documentary clearance, particularly those relating to exports.

For instance, National TRS 2022 indicated that considerable time is taken after the grant of Customs clearance (called Let Export order) to the final departure of goods (vessel sail off or aircraft take-off), which is attributable to larger logistics issues. This is a key focus area of the 2023 study, to be studied through direct stakeholder engagements.

With National TRS 2023 underway, it is expected that continuous efforts towards trade facilitation, both at the policy level and administratively at the port level, can help India offer its trade community an environment that entails minimal time and cost and provides greater certainty regarding both.

Studies such as TRS are acknowledged to be effective tool for performance measurement and more importantly bring together various stakeholders to achieve common goal of higher and more efficient EXIM trade. https://www.financialexpress.com/opinion/india-conducts-annual-assessment-of-its-cargo-clearance-at-ports/2941348/

### 3. **Cash is King after Note Ban** *(thedispatch.in)* January 9, 2023

The judgment on demonetisation is not unexpected, but the Supreme Court missive givingun fettered freedom to all governments to act on economic issues is more than it could have bargained for.

The impact of the noteban is deeper and has apparently affected government finances as well as the overall economy, including employment generation as the latest Centre for Monitoring Indian Economy (CMIE) figures indicate. The court may not discuss these, but the country would have tough moments dealing with the world economy, one-third of which, the IMF Managing Director Kristalina Georgieva says, faces recession.

Perhaps no longer can any government decision on the economy be ever questioned or the apex court be approached for its opinion. The court says it has no knowledge of the economy and it has taken the most sanguine approach of keeping off an area that is the domain of the government.

The majority judgment is withdrawal of courts' powers on economic issues. The ruling says, "it's not the function of courts to sit in judgment of economic policy and be left to govt". The court, as per the judgement, virtually recluses itself from all such future issues. Apparently, no restrictions at all apparently now. Demonetisation is a ticklish issue and certainly beyond the comprehension of a layman. The SC accepts that it should not delve into such an area. Justice S Abdul Nazeer has acted wonderfully, two days before his retirement.

Demonetisation could not have been undone six years after the action. It is good academics. So, rightfully the court has preferred not to consider it. It was only on October 12 that the court decided to hear the case. It might have been wary of its political import. The cases were argued by Congress leader and former Finance Minister P Chidambaram and lawyer activist Prashant Bhushan.

The apex court has largely agreed with the Attorney General R Venkatramani who argued that even if it is assumed that demonetisation has not succeeded, it cannot be the reason to invalidate the decision judicially as it was taken in good faith. It also did not oblige Chidambaram, who sought laying down of norms so that "no misadventures" are carried out by a future government.

Justice Nagarathna, who dissented says, "On looking at the records (submitted by RBI), I find the use of the words and phrases there "as desired by the Central Govt", "Govt has recommended the withdrawal of legal tender of 500 and 1000 notes", "recommendation has been obtained" etc., are self-explanatory. "This demonstrates that there was no independent application of mind by the (Reserve) Bank. Neither was there any time for the RBI to apply its mind in such a serious issue. This observation is being made having regard to the fact that the entire exercise of demonetisation of all series of bank notes of Rs 500 and Rs 1000 was carried out in 24 hours," she observes.

Nagarathna notes that the Centre wrote to the RBI on 7 November 2016 and that the recommendation did not originate from the bank under Section 26(2) of the RBI Act (that empowers RBI to demonetise the currency). A proposal originating from the central government is not akin to a proposal originating from the Central Board of the Bank. The concurrence given by the RBI to such a proposal cannot be construed as a "recommendation" under Section 26(2) of the RBI Act, she said.

Her deviation is limited but significant. She also agrees with the other judges. "Demonetisation was, beyond a pale of doubt, well-intentioned. Best intention and noble objects are not under question. The measure has been regarded as unlawful only on a purely legalistic analysis and not on the objects of demonetisation," she said.

Whenever currency is tinkered with it impacts the economy. Tughlaq's move had hit the economy for a hundred years. Even 1967 devaluation by Indira Gandhi under US pressure led to a historic inflation. It led to a tumult, Navnirman movement, Total Revolution of Jayaprakash Narayan and the Emergency. That's not for the court certainly.

On 8 August 2022, Minister of State for Finance Pankaj Chaudhury told the Lok Sabha the value of the counterfeit currency in the banking system was Rs 43.47 crore as announced by RBI in 2016-17. In 2022, it was reported atabout Rs 8.26 crore "amounting to a sharp decline of more than 80 percent." The number of counterfeit banknotes has come down from 7.62 lakh pieces in 2016-17 to 2.09 lakh pieces in 2020-21, not a small number.

In November 2016, the then Attorney General Mukul Rohatgi told the Supreme Court that the estimate for the amount that will get wiped out is about Rs 4-5 lakh crore, or 25 per cent of the total value of the banned notes at Rs 15.44 lakh crore (total value). It was later corrected to Rs 17.7 lakh crore. But instead of 25 per cent, the RBI, in 2017, said that only 1 percent of the cash did not return.

The demonetisation and slowdown affected government revenues according to the CAG. The projections for tax revenues in 2019-20 were at 8 per cent (Rs16,74,523 crore) of GDP, which decreased to7.36 per cent (Rs15,04,587 crore) of GDP. The actual collections were lower at 6.77 per cent of Rs 13,59,382 crore of the GDP, due to a reduction in revenues of corporation tax, minimum alternate tax, etc. The government has also 1.69 percent lower dividend and profits at Rs 3.45 lakh crore.

Consequently, the government borrowings have substantially increased from Rs 61.84 lakh crore in December 2016 to Rs 139 lakh crore in March 2022 and estimated at Rs 155 lakh crore March 2023.The unemployment figures remain at 8.3 percent, according to CMIE. It was 6.7 percent in October 2017.Interestingly, contrary to expectation of reducing currency circulation has almost doubled (83 percent rise) at Rs 32.4 crore as on 23 December 2022. Cash remains the king!

The redeeming feature is the core sector growth at 8 percent during April-November. Coal production at 12.3 percent and steel production at over 10.8 percent are significant pointers to a possible return of buoyancy. However, the index for industrial production (IIP) shows contraction from 4.2 percent in October 2021 to 3.1 percent in September 2022. This almost conforms to the IMF world projections. It may be noted that the noteban started the lag in growth, it aggravated to -23.9 percent during the lockdown. The country has yet to come out of the twin shocks. https://www.thedispatch.in/cash-is-king-after-note-ban/

**4. Governance Model** *(thestatesman.com)* January 9, 2023

Till BJP mentioned it in its 2014 election manifesto, 'minimum government, maximum governance' was an arcane idea, discussed only in academic forums, because no nation, including India, had any practical experience of this kind of governance. Prior to Independence, we had a maai baap Government; apart from ensuring that the Union Jack flew high, the Government took all decisions for the public, and ensured a somewhat just, efficient, peaceful, more or less honest administration. The advent of democracy meant that decisions were made by the Indian public, through its elected representatives, but not much changed at the grass-root level; almost the same laws and rules operated and the same people manned the same administrative posts, consequently, governance was essentially the same.

Till liberalisation in 1991, the Government was present everywhere, in every home, office and business. Everyone had to purchase food grains from a Government ration shop, and had to take a licence even to own a radio set, n-number of permissions were required to get a passport. In the early years of Independence, the State broadcaster, Vividh Bharti, was enjoined to play only classical music, with film songs being a total no-no. Businesses were tightly regulated, quotas were laid down for purchase, production, and sale of most commodities; the first business-friendly political party, Swatantra Party, in late 1950s coined the term "Quota-Permit-License Raj" to describe this Indian model of socialism. It was against Government policy for citizens to get rich; at the highest income bracket, in addition to wealthtax, income-tax was levied at 97 per cent of income.

The economic liberalisation of 1991 did away with the most intrusive aspects of such governance, but vestiges still remained; multiple permissions were required for starting any new venture and there were long queues at all Government offices, including queues to buy train tickets and file tax returns. Sometime later, the advent of computerisation led to the introduction of e-governance, which eased the compliance burden for citizens considerably; many routine tasks could now be done without visiting a Government office. Still, egovernance did nothing to diminish the role of Government in a citizen's life. Rather, the Government wanted to arm itself with additional powers to monitor citizens' activities on the internet.

Five years after announcement of the 'minimum government, maximum governance' initiative, just before the 2019 General Elections, PM Modi was asked about the success of his efforts. In a widely reported interview, Mr Modi claimed that much had been done by his Government to further the cause of 'minimum government, maximum governance.' Mr Modi said: "Earlier my Cabinet note would take six months to reach the entire Cabinet. But now it takes only 15 days. This is what minimum government and maximum governance is. Same number of people but the result is more." Mr Modi pointed out that under his aegis MOUs were being signed after video conferences, saving on costly foreign travel, and that he had cleared projects worth around Rs12 lakh crore in just an hour, which were pending for over 30-40 years.

In the classical sense "governance" means the process of decision-making and the process by which decisions are implemented (or not implemented). But, in its modern sense, 'governance' means that the State increasingly depends on other organizations to secure its intentions, deliver its policies, and establish a pattern of rule (Encyclopaedia Britannica). Thus 'minimum government, maximum governance' would mean that the role of the Government, as an intrusive implementer is minimised, with regulators and market forces implementing its policies.

However, most people still understand 'minimum government' as an initiative to limit the size of bureaucracy, which has probably been achieved already ~ by keeping many top posts vacant and carrying forward 30 lakh vacancies in the Government. Many departments make do by outsourcing their functions, even in the law enforcement, healthcare and education sectors. Suffice it to say that the Covid-19 pandemic ruthlessly exposed the shortcomings of the outsourcing system. Evidently, haphazardly limiting the size of bureaucracy lowers the quality of service delivery to citizens, thus impacting the quality of governance.

Speaking at the launch of his book 'The Third Pillar,' former Reserve Bank of India Governor, Raghuram Rajan, on 27 March 2019, questioned the implementation of the 'minimum government and maximum governance' promise, saying that the State had gained more power without corresponding checks and balances, which had brought inefficiencies in its wake. According to Mr Rajan, the private sector had become "dependent and pliant" and the bureaucracy was doing many things for which it was not intended. Also, the Government's presence in business, particularly the airlines and hospitality sectors, was not required. Mr Rajan pointed out demonetisation, and the re-introduction of protective tariffs in a number of sectors, had resulted in increased intrusion of Government in business. There can be no absolute concept of minimum government. For example, apart from defence, foreign relations and currency management, the government needs to provide healthcare and education, and fulfil aspirations of the people as a whole. 'Minimum government and maximum governance' is an idea implying that government will be efficient, and that a smaller bureaucracy with more trained and skilled people will be more effective than a large and untrained one. However, much needs to be done to put this principle in practice; despite launch of National Programme for Civil Services Capacity Building (Mission Karmayogi) there has been no impetus in the training of civil servants, and in many cases, the right person is not in the right position.

Additionally, there is a dearth of rigorous policy research on administration. The most important aspect for "minimum government" is the need to define the core functions of the government, and thereafter, stick only to those functions. Budget 2022 had a section on 'minimum government and maximum governance' which was aimed to be achieved by strengthening trust-based governance with Ease of Doing Business (EoDB) 2.0 and Ease of Living, and a spirit of increased cooperative federalism. However, no change on the ground, in this direction, is visible, so far.

Worldwide, the role of Governments is increasing. The Economist in its lead article lamented the expanding footprint of government in public life: "All around the world, the idea of limited gov-ernment is taking a beating." After the rise in energy prices, European govern-ments were subsidising fuel prices and promoting use of renewable energy through Government policies, not market forces. Similarly, the New Cold War had made the US put up trade barriers against Chinese goods, and subsidise domestic industries. Not surprisingly, such market-unfriendly behaviour was found acceptable by a public used to handouts during the Covid-19 pandemic.

Undoubtedly, the Government needs to provide good governance to citizens, the essence of which can be summed up as: Rule of law, better service delivery, transparency and accountability in Governmental processes, citizen empowerment through information, improved efficiency of Government functioning, and improved interface with business and industry. E-governance, of which JAM (Jandhan, Aadhaar, Mobile) is a part, is a commendable initiative for good governance.

Currently, as Rajan had pointed out, licence raj is gone but some part of inspector raj remains, which distorts governmentbusiness interactions. We also have gaps in service delivery, lack of accountability and poor efficiency of civil servants ~ manifest deficiencies that the government should address, sooner rather than later.

A number of factors hinder good governance; the need of the Government to appease all constituencies and stakeholders, which often results in compromises between different recommendations, leading to flaws in policy design. At the operational level, a culture of performance is lacking in Government employees. Archaic standards are used to measure performance, and promotions are hardly ever based on performance. Quickness in decision-making is often questioned by the omnipotent 3 Cs, CBI, CAG and Courts.

Some changes are required to promote good governance; responsibility and accountability need to be enforced in Government functioning, which would require a move away from wide discretion, the absence of transparency, and the current trend of centralization. The bureaucratic propensity of hobbling institutions of self-governance needs to be curbed, rather, the Government should enable greater public participation in its functioning. In a nutshell: "Good governance is the art of putting wise thought into prudent action in a way that advances the well-being of those governed." (Diane Kalen-Sukra, Save Your City: How Toxic Culture Kills Community And What to Do About It). https://www.thestatesman.com/opinion/governance-model-1503145120.html

## STATES NEWS ITEMS

**5. Non-priority spending has deepened Kerala's fiscal stress** *(moneycontrol.com)* JANUARY 10, 2023

In a day or two, police patrolling and crime investigation at distant places will be halted in Kerala, as fuel stations have rationed fuel supply for police vehicles citing pending overdue bills. Media reports claim that the police department has to clear Rs 1 crore of dues to the fuel companies, and the state police chief has written to the finance minister requesting the allotment of the amount. Confirming the crisis, a senior police official in Ernakulam, the commercial capital of Kerala, told me that he hired an Uber car for official use. He even said in a day or two, he won't be surprised if patrolling gets halted in the state.

In March 2022, upon the government's instructions, the Kerala police chief told the force to control fuel expenses citing the state's financial crisis. In 2022, if the police had adopted austerity measures, now, fuel denial due to uncleared bills forced them to ground the vehicles. Interestingly, on the same day when police officials are hiring Uber for official use, Kerala Youth Affairs Commission chairman Chintha Jerome was in the news for a hike in salary. Chintha's posting is a political appointment. Interestingly, such postings and spending are one of the main reasons leading the state to the debt trap. Or in other words, non-prioritised spending has led to the crisis.

**Non-Priority Spending**

During its previous term and now, the Communist Party of India (Marxist)-led Pinarayi Vijayan government had thrown away money without caution. Yes, floods in 2018 and 2019 and Covid-19 in 2020 and 2021 have worsened the financial situation. But the Left government has never thought of controlling the fund leak. While the previous CPM-led Pinarayi government between 2016-2021 had 20 ministers, and this ministry has 21 ministers. In addition to having an extra minister, the government has some 500 personal staff members. Every minister gets around 25 personal staff members. And this is when a central government minister gets only 15.

Currently, Pinarayi leads with 33 personal staff members, followed by his son-in-law PA Mohammed Riyas, the PWD minister, and Abdu Rehman, the ports minister, who both have 28 each. State transport minister Antony Raju has the least with 19 members.

And all personal staff members are appointed politically. A personal staff member who gets an appointment at the age of 18 years will work for 2.5 years and then retire. He will get a salary for those 2.5 years and a pension of Rs 3,350 till death. Additionally, he is eligible for a 7 percent dearness allowance and gratuity.

The state has around 1,300 retired personal staff members. And annually, some Rs 8 crore are spent on pensions for these retirees. Kerala governor Arif Mohammed Khan was 'angry' with the state government for spending money for retried personal staff members. And his statements had hit media headlines for weeks.

The governor's statements 'told' the public that the state government is spending crores for politically appointed personal staff members when some 35 lakh job seekers have registered in the Kerala employment exchange and waiting for a job call. If personal staff members' salary and pension are one example to be quoted to show how money is thrown away without setting any spending prioritization, a couple of recent spending by Pinarayi will surprise anyone. He bought cars for Rs 2.5 crore for himself and the governor during the last few months and built a lift for Rs 25 lakhs to go to the second floor of his two-storey official residence. And on the same official premises, he spent Rs 42.90 lakh to reconstruct a damaged compound wall and build a cattle shed, and Rs 25 lakh to renovate a swimming pool.

This non-prioritised spending happens when some Rs 5,000 crore is taken as a loan each month from the central government to pay the salary and pension of government employees in the state.

**No Money For Development**

According to Kerala Budget 2022-23 document, the state is estimated to spend Rs 94,781 crore on committed expenditure items, which is 71 percent of its revenue receipts.

This comprises spending on salaries (31.3 percent of revenue receipts), pension (20.0 percent), and interest payments (19.4 percent). In other words, the government has only 29 percent of revenue left for other welfare programs and invest in revenue-generating developmental projects. The budget document also reveals that committed expenditure in 2022-23 is estimated to increase by 2 percent over the revised estimate of 2021-22. And spending on interest is estimated to increase by 17 percent.

A CAG report on state finances released in July 2022 reveals that the total outstanding liabilities (debt) of Kerala grew from Rs 1.90 lakh crore in 2016- 17 to Rs 3.08 lakh crore in 2020-21. In 2020-21, the outstanding liabilities grew 16.21 percent over the previous year. It comprised internal debt of Rs 1,90 lakh crore (62 percent), public account liabilities of Rs 1.03 lakh crore (33 percent), and loans and advances from GoI of Rs 14,973.64 crore (five percent).

**Off-Budget Borrowing Burden**

And off-budget borrowing of Rs 9,273.24 crore is not included in the Rs 3.08 lakh, crore debt. These off-budget borrowings have increased the overall debt liabilities of Kerala by Rs 16,469.05 crore to Rs 3.25 lakh crore as on 31 March 2021. Meanwhile, in June 2022, citing the financial crisis in Sri Lanka, a team of Reserve Bank of India economists led by deputy governor Michael Debabrata Patra named Kerala, Bihar, Punjab, Rajasthan, and West Bengal as ‘highly stressed’ states.

The RBI report also adds that the debt to GSDP ratio is unlikely to see any significant decline anytime soon – the state has projected it to be 35.7 percent in 2024-25 in its medium-term fiscal policy and strategy statement. The RBI study has estimated it will be 38.2 percent in 2026-27.

The increase in the debt-GSDP ratio is not at all a good sign for the economy. Unfortunately, a recent report from RBI reveals that Kerala has lost its pole position in inward remittance to Maharashtra. According to the report, the share of inward remittances to Kerala from Non-Resident Keralites (NRK) has dwindled by half over the past five years. Going by the statistics in 2020- 21, Maharashtra has overtaken Kerala, which topped the list for the highest NRI remittances share in 2016-17. Five years ago, 19 percent of the total remittances were to Kerala. It has dwindled to 10.2 percent now. And Maharashtra’s total remittance, which was 16.7 percent then now has grown to 35.2 percent.

Economists say remittances increase the consumption level of rural households, which might have substantial multiplier effects because they are more likely to be spent on domestically produced goods. And it has happened in Kerala too. If Keralites enjoy better education facilities, health infrastructure, and decent living standards, then it is remittances that have made it possible. As remittances are witnessing a dip, financially stressed Kerala will face a tough time.

Meanwhile, Kerala Finance Minister KN Balagopal himself is giving signs of Kerala's unprecedented financial crisis. In the first half of December, while talking to the media, he expressed his worry over the financial crisis twice. Additionally, the Kerala cabinet has also decided to write to the central government seeking flexibility in taking loans and relaxations in assessing debts.

In October 2022, the Fitch Ratings revised the outlook on Kerala to negative from stable and affirmed the Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'BB'.

When a negative outlook is forecast, only prudent debt management and radical steps to generate revenue will help Kerala to rescue itself from the trap. https://www.moneycontrol.com/news/opinion/non-priority-spending-has-deepened-keralas-fiscal-stress-9835051.html

**6. Rs 50 lakh concession to Suchitra Society is not 'donation': Karnataka HC** *(deccanherald.com)* January 10, 2023

The high court has quashed the BDA's letter asking Suchitra Cinema and Cultural Academy, Bengaluru, to return the Rs 50 lakh concession given while renewing the lease for the sites.

Justice Krishna S Dixit observed that a single English word 'donation' in the lease transaction has played havoc in the matter, making it prejudicial against the petitioner — Suchitra Trust.

The petitioner was granted a 30-year lease in March 1979 and, while renewing the lease in June 2010, it was given Rs 50 lakh concession on the instructions of the then chief minister. The Comptroller and Auditor General (CAG) raised certain audit objections based on the word used in the lease transaction. Following the objection, the BDA wrote to the trust on November 19, 2014 to return the Rs 50 lakh.

The court declared that it was not possible to consider the concession granted by the BDA as a "donation" in the context of the case. The court stated that the BDA had not provided anything to the petitioner as a donation and pointed out that even the chief minister's letter did not use the word "donation".

"The wrong employment of this one single word of the English language has played havoc in the matter to a great prejudice of the petitioner — Suchitra Trust. It was Bertrand Russell who, decades ago, had said that if language is not properly used, what is said is not what is meant; if what is said is not what is meant, then what needs to be done would remain undone or misdone," Justice Krishna Dixit said.

The court further said, "The BDA could have offered a proper explanation to the auditing party (CAG) as to what it meant by the word 'donation' in the light of the transaction in question. However, it did not choose to do that. The auditing party did not solicit explanation from the petitioner, either. Therefore, the contention of the BDA panel counsel that his client being a statutory authority cannot give any donation to anyone since it has to act as the trustee of the public funds does not impress the court, even in the least," the court said. https://www.deccanherald.com/city/top-bengaluru-stories/rs-50-lakh-concession-to-suchitra-society-is-not-donation-karnataka-hc-1179477.html

**7. स्टेट वेयर हाउस ने अपात्र को दिया ठेका, सरकार ने मांगी रिपोर्ट** *(haribhoomi.com)* 10 Jan 2023

छत्तीसगढ़ राज्य भंडारण निगम (स्टेट वेयर हाउस) द्वारा गोदाम निर्माण में एक बड़ा गड़बड़झाला सामने आया है। खास बात ये है कि यह सीएजी कार्यालय के उप-महालेखाकार ने वेयर हाउस के प्रबंध निदेशक को भेजी गई एक रिपोर्ट में यह बड़ा खुलासा किया है कि योग्यता मानदंडों को अनदेखा करते हुए निगम की निविदा तकनीकी समिति ने अपात्र होने के बाद भी ठेकेदार को काम सौंप दिया । इस तरह कार्य प्रदान करना निविदा की अनिवार्य शर्तों का उल्लंघन है। यह नियमानुसार नहीं है और अत्यधिक आपत्तिजनक है। इसके परिणामस्वरूप अपात्र बोली दाताओं को 12.75 करोड़ की राशि का कार्य अनियमित रूप से दिया गया तथा ठेकेदार को अनुचित लाभ दिया गया ।

भंडारण निगम ने जांजगीर-चांपा जिले के बाराद्वार (15000 एमटी)-सक्ती (7200 एमटी ) में गोदाम परिसर के निर्माण एवं अन्य कार्य के लिए 12 फरवरी 2021 को निविदा आमंत्रित की थी । कुल अनुमानित लागत 13 करोड़ 45 लाख रुपए थी । इस ठेके के लिए शर्त ये थी कि बोलीदार का एवरेज टर्नओवर 4 करोड़ 6 लाख रुपए होना चाहिए। इस ठेके के लिए निविदा दाखिल करने वाले बिलासपुर के ठेकेदार अरोरा कंस्ट्रक्शन ने जब निविदा में हिस्सा लिया, तो उसका कुल टर्नओवर 3 करोड़ 66 लाख था । दरअसल यह कार्य जितनी अनुमा नित लागत का था , उसका न्यूनतम 30 प्रति शत औसत वार्षिक टर्नओवर होना चाहिए था ।

चार फर्म शामिल हुई निविदा में

बोली के जवाब में चार फर्मों ने निविदा में भाग लिया । चार में से दो फर्मों ने वित्तीय बोली खोलने के लिए अर्हता प्राप्त की । मेसर्स अरोरा कंस्ट्रक्शन, बिलासपुर (ठेकेदार) ने सबसे कम दर यानी एसओआर से 5.22 प्रतिशत नीचे (बिलो ) रेट कोड किया । इस हिसाब से जांजगीर चांपा जिले में बाराद्वार (15000 मी ट्रिक टन)-सक्ती (7200 मी ट्रिक टन) में गोदाम का निर्माण कार्य मेसर्स अरोरा कंस्ट्रक्शन बिलासपुर को कुल 12.75 करोड़ की लागत का ठेका दिया गया ।

महालेखाकार ने पकड़ी गड़बड़ी

इस संबंध में लेखापरीक्षा ने पाया कि कि ठेकेदार ने निविदा शर्त को पूरा नहीं कि या , क्योंकि इसका औसत वार्षिक वित्तीय कारोबार योग्य टर्नओवर के मुकाबले 3.66 करोड़ था । निगम

ने 4.04 करोड़ वार्षिक टर्नओवर का मानदंड रखा था । योग्यता मानदंडों को अनदेखा करते हुए निगम की निविदा तकनीकी समिति ने काम दे दिया । महालेखाकार के मुताबि क यह अनिवार्य शर्तों का उल्लंघन है और नियमा नुसार नहीं है और अत्यधि क आपत्तिजनक है। इसके परिणामस्वरूप अपात्र बोलीदाता को 12.75 करोड़ की राशि का कार्य अनियमित रूप से दिया गया तथा ठेकेदार को अनुचित लाभ दिया गया । https://www.haribhoomi.com/local/chhattisgarh/state-warehouse-gave-contract-to-ineligible-government-asked-for-report-495372

## SELECTED NEWS ITEMS/ARTICLES FOR READING

**8. Budget to focus on fiscal rectitude, prudent spending** *(financialexpress.com)* January 10, 2023

Faced with a tricky task of balancing growth with fiscal consolidation imperatives amid mounting external headwinds, the government will seek to further improve the quality of spending in the Budget for FY24 to stir economic activities, resisting the temptation of resorting to populism ahead of the 2024 general elections.

Economists who FE spoke to said, given its elevated multiplier effect, budgetary capital expenditure, despite its limitations, will continue to get a push and be used for growth and job creation. States and CPSEs could be nudged to raise their capex as well.

Enhanced public capex is expected to complement private capex, which the government feels is showing early signs of a revival, and help herald investment-led economic growth when both private consumption (internal demand) and exports (external demand) are faltering. A clutch of production-linked incentive schemes in sectors like textiles, electronic components, furniture, toys and leather will also come in handy.

Private final consumption expenditure, the principal pillar of the economy, is estimated to shrink 0.2% in the second half of this fiscal. Exports barely rose in November after a 16.7% contraction in October.

However, the government is unlikely to announce any mega consumption booster for fears of stoking fresh inflationary pressure and falling foul with the central bank's rationale for the rate hikes. Moreover, the Centre is conscious of the fact that GDP growth will decelerate in FY24 (most expect it to ease to about 6% from the estimated 7% in FY23) as global economic slowdown accentuates, and any fiscal profligacy will only exacerbate its already-bloated debt and interest burden. It will also complicate the Centre's efforts to bring down fiscal deficit to the targeted 4.5% of GDP by FY25 from the budgeted 6.4% in FY23.

So, within the limited fiscal space, the government could roll out steps to address pain points, including decelerating growth in private consumption and exports, and a potential slowdown in the farm sector expansion. Import duties on dozens of items — from jewellery, certain electronics and electrical products to helicopters — could be raised to stimulate domestic manufacturing and protect investors in the PLI sectors. At the same time, exports will likely be promoted through timely tax remission, enhanced outlay for R&D and marketing, easy imports of raw materials and restructuring of inverted duty structure in certain items.

Moreover, given the renewed focus on green financing and climate change in the wake of India's G20 presidency, sovereign green bonds could make a comeback in FY24, with an issue size larger than the proposed Rs 16,000 crore for this fiscal. Moreover, measures to encourage the reduction of carbon footprint in the economy could also features in the Budget.

Pronab Sen, former chief statistician and chairman of the National Statistical Commission, told FE: "I don't think the government has adequate space to do much, given the need to reduce fiscal deficit. It has increased public capex quite a lot. That could continue. It may bury a few programmes and launch some new ones but mostly it could just tinker around a lot of schemes."

N R Bhanumurthy, vice-chancellor of Bengaluru's BASE University, said the Centre may raise the amount of long-term, interest-free loans to states for capex in FY24 from Rs 1 trillion this fiscal. He expects the government to roll out measures to address potential risks to the farm sector, including likely El Nino effect (which causes drought), migration of labourers from agriculture to industrial sectors (as the economy expands), less crop area and rising credit issues. So, the Budget may seek to tackle any potential land, labour and capital issues in the farm sector.

This means the government may boost allocation for programmes like NREGA and raise the farm lending target substantially. Some income-generating, direct benefit schemes for the rural population could also be extended or see a hike in outlay, Bhanumurthy anticipated.

The farm and allied sector grew in the range of 3% to 5.5% since FY20, decent performance by its standards. The farm lending target was raised to Rs 18 trillion for FY23 from Rs 16.5 trillion a year ago.

"Moreover, the government could raise basic customs duties on a range of products to help domestic manufacturers. It may also take steps to both protect and promote exports," Bhanumurthy added.

Aditi Nayar, chief economist at Icra, said: "In the backdrop of a global growth slowdown and geopolitical uncertainty, we anticipate that the FY24 Budget will focus on supporting the domestic economic growth, with a continued impetus towards infrastructure and capacity development." She expects a double-digit hike in capex to Rs 8.5-9 trillion.

Nayar also expects continued support towards the rural economy and the possibility of a "big-bang feel-good social sector scheme, which could be funded by the cushion provided by lower expenditure on subsidies".

The government will also seek to curtail the pace of rise in revenue spending, as it expects a moderation in its fertiliser subsidy next fiscal in the wake of an anticipated drop in oil prices.

The government will likely trim its deficit target for FY24 to 5.8% or thereabout, against the budgeted 6.4% for this fiscal. The Centre was forced to push up spending substantially in two of the three years through FY23 to soften the blow of the pandemic and the Ukraine war. Total expenditure climbed from Rs 26.86 trillion in FY20 to Rs 37.94 trillion in FY22 and may further swell to about Rs 42 trillion in FY23, sources recently told FE.

Despite the rise in revenue spending, the government hasn't diluted focus on capex. In fact, in the aftermath of the pandemic, the central government raised its budgetary capex by as much as 27% on year in FY21, 39% (albeit including equity infusion into Air India Assets Holding) in FY22 and 27% (budgeted) in FY23 — way above the increase in overall Budget size of the relevant years. https://www.financialexpress.com/economy/budget-to-focus-on-fiscal-rectitude-prudent-spending/2941819/

**9. GDP growth is encouraging, but faultline visible on the road ahead** *(moneycontrol.com)* 10 Jan 2023

The National Statistical Office (NSO) in the ministry of statistics and programme implementation in its first advanced estimate (AE) of the national income expects the Indian economy to grow at 7 percent in FY23. This is 20 basis points (bp) higher than the Reserve Bank of India's and the International Monetary Fund's estimate of 6.8 percent. India's economic growth forecast by economists, investors and multilateral agencies in FY23 is in the range of 6.5-7.0 percent. The AE of FY23 is based on the economic performance in the first half (1H) and the likely trend in the second half (2H). The AE numbers of FY23 are an important input for the preparation of the FY23 Union Budget. These estimates will undergo a revision by factoring in the third quarter (3QFY23) corporate sector performance and will be released as the second advanced estimate of national income at the end-February.

Last year, the first AE pegged the GDP growth for FY22 at 9.2 percent and the second AE revised it downward to 8.9 percent. Likewise, FY21 growth was revised downward to -8.0 percent in the second AE from -7.7 percent in the first AE.

With the base effect gradually waning off, GDP growth, on a y-o-y basis, is expected to decline to 4.5 percent in 2HFY23 from 9.7 percent in the first half of FY23. Nonetheless on an annual basis, with 7 percent GDP growth, India will be among a handful of economies growing at a strong pace.

The worrying trend of the first AE is that barring government final consumption expenditure (GFCE), all the other demand components of GDP are expected to slow down significantly in the second half compared to the first half. Private final consumption expenditure (PFCE), the biggest component of demand (FY23: 57.2 percent) is expected to contract by 0.2 percent y-o-y in the second half of FY23 after rising 17.2 percent y-o-y in the first half). The gross fixed capital formation (GFCF) is expected to decline to 8.4 percent y-oy in the second half of FY23 compared to the growth of 15 percent in the first half.

Despite the global headwinds, the moderation in real growth of exports of goods and services was, surprisingly, marginal. It is expected to decline to 11.9 percent y-o-y in the second half after rising 13 percent in the first half. On the other hand, imports of goods and services are expected to fall sharply in the second half of FY23 to 12.2 percent y-o-y against a real growth of 30.9 percent in the first half. Only GFCE growth is expected to accelerate to 7.2 percent y-o-y in 2HFY23 from a contraction of 1.3 percent in the first half indicating the usual backloading of current expenditure by the government.

The likely stark difference between the first and second half PFCE growth numbers of FY23 suggests that consumption demand has yet not become broad-based and sustainable. While car sales numbers suggest a strong demand revival, FMCG sales point towards weak demand. This is indicative of the nature of the evolving consumption demand in the post-pandemic period which is highly skewed in favour of goods and services consumed largely by the households falling in the upper-income bracket.

Gross value addition (GVA) is expected to grow at 4.7 percent y-o-y in the second half, much lower than the 9 percent rise in the first half. Interestingly, GDP growth in the second half will be about 20bp lower than the GVA growth in the first half of FY23 due to a substantial fall in net product taxes. The growth in net product taxes is expected to reduce to 3.2 percent y-o-y in the second half from 19.5 percent in the first half. This could be due to – (a) lower nominal GDP and in turn tax revenue growth and (b) significant growth in subsidies (the bill for major subsidies such as food, fertilisers and petroleum is expected to increase 19.1 percent y-o-y in the second half of FY23 from 9.9 percent y-o-y in the first half).

Barring mining and quarrying and manufacturing, the GVA growth of all other sectors is expected to be lower in the second half compared to the first half of FY23. Lower nominal GDP growth (a combination of a decline in real growth and inflation) will also mean lower wages and EBITDA growth and will have implications for both investment and consumption growth in the second half of FY23. However, a sharp increase in GFCE growth, and a simultaneous drop in GVA growth of public administration, defence and other services in the second half compared to 1HFY23 though appears perplexing. Hopefully, with the availability of more data, it would get corrected when the second AE of national income will be released by the end of February 2023.

**Boost Capex**

GFCF growth has remained strong, driven by the government's focus on infrastructure development. The fixed investment rate is likely to touch a four-year high in FY23, but will still be 27bp lower than FY19 and 662bp lower than the peak of 35.8 percent attained in FY08. But for sustainable growth and recovery of the Indian economy, a revival of the private corporate sector capex is a must. Unfortunately, private corporate investment, with the exception of a few sectors, is not going beyond the maintenance capex because consumption demand is still not broad-based and the economy has yet not gathered its own momentum. Therefore, till the corporate sector greenfield capex revives, government capex must continue to provide the necessary support to the ongoing recovery.

Overall, the growth momentum witnessed in FY23, despite global headwinds, is good news and shows the resilience of the Indian economy. However, the road ahead is not going to be easy so long as private final consumption expenditure does not recover fully and becomes broad-based. The household sector, which accounts for 44-45 percent of the GVA, saw its nominal wage growth decline to 5.7 percent during FY17-FY21 from 8.2 percent during FY12-FY16. In fact, the real wage growth became nearly flat or even turned negative in some months of FY23 due to high inflation. Since much of the growth in consumption demand is driven by the wage growth of the household sector, a recovery in their wage growth is imperative for a sustainable economic recovery.

Yet, the first advanced estimate of FY23 GDP will cheer the government since the nominal GDP and in turn tax revenues are going to be much higher than budgeted and would provide adequate fiscal headroom to achieve the fiscal deficit target. https://www.moneycontrol.com/news/opinion/gdp-growth-is-encouraging-but-faultline-visible-on-the-road-ahead-9838751.html

**10. Fall in India nominal GDP growth in FY24 to challenge fiscal math** *(livemint.com)* Updated: 09 Jan 2023

Nominal GDP growth, which includes inflation, is the benchmark used to estimate tax collections in the upcoming budget to be presented on Feb. 1
India's nominal GDP growth is likely to fall in 2023-24, hurting tax collections and putting pressure on the federal government to reduce the budget gap by cutting expenses ahead of national elections in 2024.

Nominal GDP growth, which includes inflation, is the benchmark used to estimate tax collections in the upcoming budget to be presented on Feb. 1. It is estimated to be around 15.4% for the current financial year.

At least four leading economists expect nominal GDP growth to come in between 8% and 11% as inflation slows and real GDP growth eases from an estimated 7% this year, when pandemic-related distortions and pent-up demand pushed up growth rates.

A lower tax revenue will limit the government's ability to spend and support the economy as the country heads to national elections in 2024. It will also strain efforts to bring down the fiscal deficit towards the medium-term target of 4.5% of GDP by 2025/26.

"Higher nominal GDP growth has not only helped in lowering public debt and fiscal ratios, but has also resulted in pushing up credit growth to 16%-17% year-on-year in FY23," Deutsche Bank's chief India economist Kaushik Das wrote in a note on Monday.

Das said he expects nominal GDP growth of 8%-9% in FY24, with inflation and real GDP growth seen declining. A growth of 8-9% would bring that number close to the 7.6% nominal growth seen in 2019/20, before the Covid crisis hit.

As of November 2022, the federal government's net tax collection stood at 12.24 trillion rupees ($148.61 billion), 63% of the annual target.

State Bank of India and rating agency ICRA estimate the nominal GDP growth at around 10% for next financial year. This, according to ICRA Chief Economist Aditi Nayar, could translate into a growth of 9.4% in tax collections.

"We are slightly cautious on tax collections next year because we expect lower growth in collections of excise and customs duties," she said.

Bank of Baroda's chief economist, Madan Sabnavis, pegs nominal growth slightly higher at 11%-12% but still materially lower than the 15.4% this year.

"The tax buoyancy seen this year due to inflation and pent-up demand will be missing this year," Sabnavis said.

BUDGET MATH
The Indian government had projected nominal GDP growth of 11.1% in the budget for 2022/23, significantly lower than the 15.4% now estimated by the statistical office in its first advance estimates released on Friday.

This, according to BofA Global Research, could mean that the federal government's net tax collections surpass budget estimates by 1.15 trillion rupees.

Non-tax revenues, including proceeds from disinvestment, will be lower though and spending will be higher by 1.35 trillion rupees.

"Higher-than-budgeted nominal GDP growth,(will help) to keep fiscal deficit as a percentage of GDP at 6.4%, with downside risks," it said.

Economists at Kotak Institutional Equities, however, said the higher-than-budgeted nominal GDP growth could have allowed for fiscal deficit to reduce to 6.1% of GDP, but higher spending will likely mean that the deficit stays at close to 6.4%.

"For FY24, fiscal consolidation should remain limited to 30-40 bps from the current fiscal," said Soumya Kanti Ghosh, chief economist at State Bank of India.

Other economists see scope for a quicker reduction of the fiscal deficit next year.

ICRA's Nayar pegs it at 5.8%, while Bank of Baroda's Sabnavis sees it at 5.75-6% of GDP.

"While nominal GDP growth rate is expected to be lower vs FY23, higher tax buoyancy, lower subsidy bill and targeted expenditure approach should pave way for lower fiscal deficit," said BofA Global Research, which also sees next year's deficit at 5.8% of GDP. https://www.livemint.com/economy/fall-in-india-nominal-gdp-growth-in-fy24-to-challenge-fiscal-math-11673261177756.html

**11. 'India needs to invest up to $100 bn annually more for 2070 net-zero goal'** *(business-standard.com)* January 9, 2023

India needs an additional investment of up to $100 billion annually to meet its 2070 net-zero carbon emissions goal, the head of a government panel told Reuters on Monday.

The parliamentary panel on finance, chaired by Jayant Sinha, is studying India's investment requirements for sustainable growth, particularly for climate adaptation and mitigation.

"The incremental investment required in India, above and beyond what we are already doing, to be on a net zero trajectory of 2070, is $50-100 billion a year," Sinha told Reuters in an interview.

Companies in India are already investing $65 billion-$100 billion to cut carbon emission from existing and new capacities.

"We almost have to double private sector capex in India to be on a net zero trajectory," Sinha said.

India is the world's third largest emitter of greenhouse gases after China and the United States - though it has a lower ranking in per capita emissions, according to Our World in Data.

Additional investments will fund infrastructure that supports the third largest Asian economy's "green transition", including boosting green hydrogen capacity, changing existing stock of internal combustion engines, building charging stations, Sinha said.

Under the Paris Agreement, which holds the world to limit warming to 1.5 degrees Celsius above pre-industrial temperatures, all countries are required to submit reports showing how they will get there.

At the COP27 summit in Egypt in 2022, India laid out steps it will take to achieve the net zero target.

India has called on rich countries to live up to their promise of providing $100 billion in annual climate finance to developing nations.

The parliamentary panel has also held discussions with various regulators, including the Reserve Bank of India and the Securities and Exchange Board of India, among others, to expand their capacity and capabilities as the country's economy expands, Sinha added. https://www.business-standard.com/article/economy-policy/india-needs-to-invest-up-to-100-bn-annually-more-for-2070-net-zero-goal-123010901179_1.html

**12. Govt should not dilute but expend more political capital on IBC** *(livemint.com)* Jan 09, 2023

In the first term of the Modi-led government, when the insolvency law was in the works, some officials were batting more for a government-backed asset reconstruction company or what is known as a bad bank. But the government then chose to go ahead with the Insolvency and Bankruptcy Code (IBC) guided perhaps by the Indian central bank's view then that such a bad bank posed a moral hazard. It then went on to empower the RBI which referred the top dozen defaulting firms for admission under the insolvency proceedings.

And the last economic survey of the government claimed that six years after it kicked in, the IBC still remained the best option to recover money from loan defaulters even if lenders were able to recover only one third of their claims.

But dark clouds are now visible on the IBC horizon. For one, the National Asset Construction Company is now up and running, bidding for distressed companies, offering banks the option to sell down their distressed loans to the company than go down the torturous insolvency road. The other disconcerting note is recent suggestions to let shareholders of large defaulters retain control of the businesses while exploring fresh investments in bankruptcy tribunals as a Mint news report said last week. This would mark a big shift from the current practice of shareholders of defaulting companies ceding management control to an administrator appointed by a committee of creditors if the suggestions are indeed accepted by the government, the report said.

Mint SnapView has consistently held the view that the IBC, one of the structural reforms undertaken by this government, should be strengthened rather than allowing it to be diluted or weakened. The growing disenchantment after the initial visible success of India's insolvency law, which was reflected in the improved behaviour of promoters who feared losing control of their firms, should not deter the government from reworking some of the provisions of the IBC and easing the resolution process. There are enough reasons for the erosion of faith reposed in this new law by many. These feature gaming by promoters, helped by some of the resolution professionals; the timeline for admission to insolvency which was mandated as 14 days after admission which had risen to 650 days in FY22; and other delays especially judicial.

Yet, it should not be overlooked that at the height of the twin balance sheet crisis – the interplay of stress in bank and corporate books – it was the fear of the new insolvency law which had fuelled a behavioural change among promoters and managements. That was a tipping point. Corporate and bank balance sheets are much healthier now obviating the need for the government to provide capital to support state-owned lenders. And the new state-backed national asset reconstruction firm can only complement the IBC with good oversight by the promoter banks and the government.

Equally, it would help if there is a recognition that given India's political economy, the insolvency law was like throwing the kitchen sink at resolving the legacy bad loan crisis after multiple attempts by successive regimes and the RBI over close to three decades. There is little that governments and the Indian central bank haven't tried. These include Debt Recovery Tribunals, the SARFAESI law, introduction of asset reconstruction companies, restructuring of loans and much more only to be frustrated.

Loan clean-ups in many countries were successful because the bankruptcy and resolution processes were faster. The IBC too aimed to do that. That objective can be fulfilled only if the conflict between the government and the judiciary eases and with far more proactive banks and regulators rather than keeping the issue of bad loans festering. The failure to swiftly and effectively resolve the case of distressed firms and assets imposes a huge economic cost and can potentially put off investors. https://www.livemint.com/opinion/online-views/govt-should-not-dilute-but-expend-more-political-capital-on-ibc-11673253973955.html

**13. Defence budget priorities for new challenges** *(newindianexpress.com)* 10 Jan 2023

**The upcoming budget may increase funding for research and development with accountability attached to it.**

It is that budget time of the year again. The economic survey, followed by the budget, and the ayes and nays on it, is a ritual that goes on every year. This column is on the defence aspects of the Budget 2023–24. There will no doubt be an increase in the defence outlay, but it has to meet the needs of the services in view of growing national security challenges and upgrading to latest technologies. The budget will also take into account the indigenisation process under Atmanirbhar Bharat.

In the overall defence budget, the allocations need to be understood in two ways. One, allocation to the three services, defence salaries, pension and allotments to DRDO, Coast Guard, etc. Two, among these allocations, how much is allotted for capital and revenue expenditure. In simple terms, capital expenditure implies expenditure to be incurred on acquiring weapon systems, equipment, etc., that contributes towards the modernisation of the armed forces. Revenue expenditure implies expenditure to be incurred for the sustenance of the armed forces.

The allocation for the defence budget has always fallen short of the projections by the Ministry of Defence. But the government has maintained that the requirements of the armed forces will always be met irrespective of the budget allocation and it seems to have come through on that promise whenever any emergent need arose in the past. Moreover, the 15th Finance Commission has recommended the constitution of a dedicated non-lapsable Modernisation Fund for Defence and Internal Security (MFDIS) to bridge the gap between projected budgetary requirements and allocation for defence and internal security for the period 2021–26. The Commission has also recommended that of the total amount of ₹2.4 lakh crore, the MoD would be entitled to ₹1.88 lakh crore or 79% of the MFDIS.

Before one sets out to look into the aspirations for the defence budget in 2023–24, it will be prudent to analyse some of the past defence budgets. If the defence budget for the last three years is analysed, six factors stand out. One, the defence budget has shown an increase varying from 2.1% to 9% but as a percentage of GDP varied from 2.3% to 2.04%. Two, the defence pensions have been reduced in the last two years. Three, the capital expenditure is increasing, and within that, the percentage reserved for indigenous procurement has also been increasing.

These, combined with the negative lists of 1,238 subsystems and the positive indigenisation list of 310 big weapon systems (announced by the Ministry of Defence only to be procured indigenously), will result in getting more value for money. Four, there has been an effort to reduce revenue expenditure. However, the same has yet to succeed due to additional deployments necessitated by the events in Eastern Ladakh in 2020. Five, the Indian Air Force seems to have been allocated maximum funds, followed by the Indian Navy and the Indian Army, in that order. Air Force and Navy being expensive-platforms-centric, have been allocated more funds. Lastly, 25% of the funds for R&D will be meant for civil enterprises.

Some analysts have opined that the Agnipath scheme announced last year was a cost-cutting measure. But the financial effects of that scheme will only be clear after the present lot of armed forces personnel get discharged from service and the Agniveers recruited since last year go over at least two or three turnovers of four years each. On January 2, 2023, media reports mentioned that the Indian Army is pruning its non-operational personnel and legacy units to improve its teeth-to-tail ratio. The effort to reduce the revenue expenditure is clearly visible.

Now, coming to this year's budget. On a conservative estimate, we can expect an increase of anything between 7–12% in the defence budget. The bracket has been purposely kept large as the economy is still coming out of the effects of Covid-19. If the inflation projected by the Reserve Bank of India as 6.7% during the year is considered, this will give a real increase of approximately 1–5%. Even though the Standing Committee on Defence (2018) had recommended that the Ministry of Defence should be allocated a fixed budget of about 3% of GDP, it would be fair to assume that it is unlikely. The allocation for capital expenditure will likely grow, and so will the allocation from it for indigenous acquisition. This progressive increase will help in improving indigenisation and further progress in Atmanirbhar Bharat.

All three services will aspire for more funds to improve their capabilities. The ongoing Russia-Ukraine conflict has brought forward a couple of issues. One, however much the asymmetric capabilities develop, they cannot win wars by themselves. Hard power of the Army, Navy and Air Force is the basic requirement that cannot be wished away. Two, armed forces have to be prepared to fight long wars. Therefore, adequate funding for building their ability to fight protracted wars needs serious consideration. This is also accentuated by the fact that we have active borders on two fronts. Therefore, all the services and the Strategic Forces Command need to be funded adequately.

While that requirement should be met as much as possible, the focus should be on developing asymmetric capabilities in space, cyber, artificial intelligence, quantum technologies and blockchain. These are likely to be the battle-winning technologies of the future, and to get technology transfer for them will be difficult. Developing these technologies is time-consuming and needs a lot of research.

Therefore, the upcoming budget may increase the funding for research and development with accountability attached to it. Civil-military integration is an important aspect for which some allocation may be made in the defence budget. Many countries have benefited from leveraging civil and military capabilities to modernise and upgrade their defence potential. Recently, the cabinet approved the revision of pension for veterans of the armed forces as per the 'One Rank One Pension' formula. Approximately ₹23,638 crore needs to be paid as arrears from July 2019 till June 2022. The estimated additional annual expenditure for implementation of the revision is expected to be approximately ₹8,450 crore at 31% Dearness Relief. This has to be catered for in this year's defence budget.

Balancing the budget amongst multifarious requirements is difficult. One sincerely hopes this year's budget will meet the expectations for the defence budget. https://www.newindianexpress.com/opinions/2023/jan/10/defence-budget-priorities-for-new-challenges-2536204.html

**14. Why the Centre has not paid MGNREGA wages in Bengal for a year** *(scroll.in)* 10 Jan 2023

People working under the Mahatma Gandhi National Rural Employment Guarantee Act in West Bengal have not been paid their wages for more than a year now with the Union government stopping the payment of funds. Bengal is the only state impacted by this stoppage.

MGNREGA is a national social security scheme meant to guarantee at least 100 days of unskilled manual work in a year.

The non payment of wages by the Centre is being seen as an outcome of the bitter tussle between the Bharatiya Janata Party and the Trinamool Congress ahead of the local body elections in the state later this year. The result of MGNREGA stoppage has been a rise in food insecurity and women's unemployment, point out experts.

A year without a safety net
The last wage instalment to workers in the state was disbursed on December 26, 2021, according to NREGA Sangharsh Morcha, a rights group for MGNREGA workers. The Union government has since withheld the release of more than Rs 7,500 crore worth of MGNREGA funds to West Bengal, the rights group said. Of this, the workers' pending wages amount to Rs 2,744 crore.

Nikhil Dey, founding member of the Mazdoor Kisan Shakti Sangathan, a civil rights group, suggests more than 1 crore workers have been affected.

The Union government has cited alleged corruption at the state government level and invoked Section 27 of the act to block the disbursement of funds. The law allows the Union government to stop the funding and investigate alleged improper usage of funds meant for MGNREGA if it receives complaints.

## A political tug o' war

Behind these allegations of corruption lie a bitter political tussle between the state's two main parties as they gear up for panchayat elections later this year. Both the BJP and the state's ruling Trinamool Congress are blaming each other for the stalemate over MGNREGA wage payments. The state BJP has played up allegations of corruption and misuse of MGNREGA funds by the Trinamool Congress' state government to claim that the blocking of funding by the BJP-led Union government is justified. Dilip Ghosh, a key BJP leader from West Bengal, said the Union government "is ready to release funds for the people of the state. But first, the state government has to explain the expenditures from already released funds."

"The people of the state know how TMC leaders and workers misused the central funds," Ghosh said. "They even changed names of the Centre's schemes and passed them as their own. Under such circumstances, the Centre stopped the funds to put an end to the corruption."

On the other hand, West Bengal Chief Minister Mamata Banerjee said on January 2 that she had raised the MGNREGA dues matter with Union ministers after having previously written to the prime minister thrice.

In November too, Banerjee had said it was the state's right to access the funds. "I personally met the prime minister and spoke to him in the matter," Banerjee said in November. "Will I have to touch his feet now? The Union government will have to pay our dues at any cost. Else the positions of power have to be vacated."

Trinamool Congress leader and Lok Sabha member Abhishek Banerjee has accused the BJP of "wilfully depriving" the people of West Bengal for "rejecting them", referring to the saffron party's defeat at the hands of his party in the 2021 assembly election. The state is owed Rs 5,433 crore – "more than 50% of total dues owed to states," Banerjee highlighted in a tweet, citing the Union government's response to his questions in Parliament.

## Workers are suffering

Rights groups criticise the fact that the right to work scheme is being held hostage to partisan politics. NREGA Sangharsh Morcha said in a statement that "while the state asserts that all corrective measures have been taken, BJP at the Centre is however reluctant to release the money before the Panchayat elections".

"In this slugfest the sufferers are the workers who have been deprived of their wages for the past year," the organisation said.

## Wrong in law and logic

Moreover, experts argue that the Union government stopping NREGA payments has little backing in law. "It (Section 27 of the Act) does not allow the Centre to do a post-facto stoppage of wage payments," Dey pointed out.

Similarly, NREGA Sangharsh Morcha said in a statement that provisions of Section 27 "cannot be read as a licence to stop wage payments to workers who have already worked" and that the "workers have an unconditional right to be paid within 15 days".

Moreover, the Union government's actions of stopping wages in response to the state government's alleged corruption make little sense, given that it ends up punishing workers for the alleged wrongdoings of bureaucrats. “You can investigate corruption at the government level, but you cannot not pay someone who has already worked,” Dey told Scroll.in. “Workers are the real victims of corruption anyway. You are now destroying them.”

Similarly, Anuradha Talwar from the Paschim Banga Khet Majoor Samity said that “not paying workers for the work they have done is like bonded labour, no matter what corruption has happened. The workers are being punished.”

“They (the Union government) are practically saying that all work done in the past year is corrupt, which is not possible,” Talwar added.

As a result, the NREGA Sangharsh Morcha has demanded immediate release of all pending MGNREGA wages in West Bengal along with compensation for the delay as per the Act’s provisions. According to the law, if their wages are not paid within 15 days, workers are entitled to compensation at the rate of 0.05% of the unpaid wages per day for the duration of the delay.

Food insecurity

Non-payment of MGNREGA wages to workers in West Bengal is having an adverse impact on the ground, especially in terms of food security and rural unemployment, rights groups suggest.

Apurva Gupta from the NREGA Sangharsh Morcha, who was part of the activists and journalists’ fact-finding team that examined the situation in three districts of West Bengal in July, highlighted how many workers in districts like Purulia were dependent on MGNREGA for their livelihood. On an average, these workers are owed Rs 3,000 to Rs 6,000, Gupta said.

But because of the non-payment of these wages, workers have been skipping meals, Gupta told Scroll.in. “Even if they are having one meal a day, it usually comprises rice and water,” she said. “The children are dependent on the midday meals provided in schools.”

Talwar and Gupta suggest there has been at least one death linked to starvation in West Bengal’s Jhargram district because the person was unable to get a new MGNREGA job card as the scheme has come to a standstill in the state.

Women’s unemployment

Dey also highlighted that along with having a “drastic impact on food security”, the non-payment of MGNREGA wages has also led to an increase in women’s unemployment.

“MGNREGA wages are a major source of income, especially for women as they do not have any alternate livelihood,” Talwar explained. While the men can migrate for work, the women are the worst affected because they are unable to migrate because of family, Talwar told Scroll.in.

The Centre’s stoppage of funds, resulting in non-payment of wages, has been challenged in the Calcutta High Court by the Paschim Banga Khet Majoor Samity. The chief justice has asked the Union and the state governments to file affidavits in the matter, which will be heard next on January 9. https://scroll.in/article/1041183/why-the-centre-has-not-paid-mgnrega-wages-in-bengal-for-a-year

**15. Free food scheme moderated income inequality in many states: Report** *(business-standard.com)* January 9, 2023

Free food distribution of cereals during the pandemic has starkly reduced income inequality across laggard states and those at the bottom of the pyramid, according to a report.

SBI Ecowrap started the research with a hypothesis of how the free food grain distribution is impacting the distribution of wealth on population quintiles for the poorest of the poor.

It has taken a cue from the the International Monetary Fund (IMF) Working Paper which indicated that Pradhan Mantri Garib Kalyan Yojana (PMGKAY), which provides free foodgrains to poor people, played a key role in keeping extreme poverty in India at the lowest level of 0.8 per cent during the pandemic-hit 2020.

The SBI study analyzed the impact of share of Rice procurement (since Rice is still the staple food for most of the people in India), on Gini Coefficient for 20 States and the impact of share of Wheat procurement on Gini Coefficient for nine States.

"Our results show that relatively laggard states in terms of inequal distribution of wealth across different population quintiles, Rice procurement and Wheat procurement in such states had a significant impact on reducing inequality through reduction in Gini coefficient," it said.

These states were Assam, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Uttar Pradesh, Uttarakhand and West Bengal, he said, adding, the impact of Rice and Wheat Procurement on percentage of population for lowest and second quantiles of wealth, revealed a sharp decline in the percentage population in such quantiles of the population.

Stating the importance, the report said, a higher procurement, is benefitting the poorest of the poor in terms of subsequent free distribution of foodgrains and the procurement may have also put money into the hands of smaller and marginal farmers, with distributional impact.

This also shows that the procurement of cereals of the government over time may have become more efficient across states, it said.

Last month, the government decided to provide free ration to 81.35 crore poor people under the National Food Security Act (NFSA) for one year.

Under NFSA, also called the food law, the government currently provides 5 kilogram of food grains per person per month at Rs 2-3 per kg. The families covered under Antyodaya Anna Yojana (AAY) get 35 kg of food grains per month.

Rice is given to poor persons under NFSA at Rs 3 per kg and wheat at Rs 2 per kg.

Interestingly, the report said, with food being provided free under NFSA, the cost actually paid by the households for the quantity obtained from the PDS will be zero.

This lower demand of cereals at market prices will concomitantly lower the mandi prices of cereals and this will have a sobering impact on the CPI food inflation.

"We also find that several government transfer payments for the poor are adding Rs 75,000 to a household per annum. Our results clearly substantiate that in the Indian context, it is an incorrect conjecture to assume that inequality has worsened during pandemic," it said.

With a progressive growth in output across states as proxied by GSDP, it is clear that the fruits of such a growth have clearly reverberated and dovetailed into an inclusive growth, it said, adding, India has thus done quite well during pandemic in terms of navigating income shocks across deciles of population. https://www.business-standard.com/article/economy-policy/free-food-scheme-moderated-income-inequality-in-many-states-report-123010900295_1.html

**16. 1976 Report Flagged Joshimath "Sensitive," Warned Against Heavy Construction, Felling** *(vibesofindia.com)* Updated: January 10, 2023

Almost half a century ago, in 1976 to be precise, an 18-member committee warned the government that the town of Joshimath is "geologically unstable" and suggested several restrictions and remedial measures.

The committee, under the chairmanship of then Commissioner, Garhwal Mandal, Mahesh Chandra Mishra, was set up to probe the cause of landslides and sinking of Joshimath town. In its report dated May 7, 1976, it suggested restrictions on heavy construction work, agriculture on slopes, felling of trees; construction of pucca drainage to stop seepage of rainwater, proper sewage system, and cement blocks on river banks to prevent erosion.

Amid the current crisis, the Congress and BJP are now blaming each other for failing to implement the recommendations of the report.

The study noted that the area is geologically unstable, resulting in landslides, road breaches, and localised land subsidence. However, the increase in construction activity and population, has only added to the biotic disturbance. The report had further concluded that heavy construction projects were undertaken in the area after 1962, without adequate systematic provisions for regulated drainage, leading to the percolation of water which ultimately causes landslides.

It also drew attention to the indiscriminate felling of trees: "…Trees are important as they act as mechanical barriers to rain, increase the water conservation capacity and hold the loose debris mass. Natural forest cover in the Joshimath area has been mercilessly destroyed by a number of agencies… Landslides and slips are the natural outcomes".

The report pointed out that Joshimath is situated on a deposit of sand and stone, and is not suitable for a township. Vibrations, caused by blasting and heavy traffic, will also lead to disequilibrium in natural factors, it said.

Suggesting remedial measures, the report said heavy construction work should only be allowed after examining the load-bearing capacity of the soil. For road repair and other construction work, it would be advisable not to remove boulders by digging or blasting the hillside. In the landslide-prone areas, stones and boulders should not be removed from the bottom of the hill, as it will cause loss of support, it said.

“Cutting of trees for supplying the township with timber, firewood, and charcoal may be strictly regulated and no tree should be felled in the landslide area. Agriculture on slopes must be avoided. Instead, a massive campaign to plant trees and grass should be undertaken to conserve soil and water resources,” it said.

“Joshimath area is on permanent tectonic zones, which might be active in present times. Water seepage in the area is profuse. Therefore, to prevent any more landslides in the future, it is a must to stop the seepage of open rainwater below. Hence, the construction of a pucca drain system is a vital necessity. Construction of proper drainage, as has been done at Nainital where a portion of Mall (Road) was sinking, must be undertaken immediately,” the report stipulated.

According to data provided by the Chamoli district administration, there are around 3,900 houses and 400 commercial buildings in the Joshimath area, spread across 2.5 square kilometres. About 195 houses were built as part of the PM Awas Yojna.

By Monday evening, cracks were reported in 678 of these houses and structures. With 27 more families being relocated on Monday, a total of 81 families have been shifted to temporary shelters so far. https://www.vibesofindia.com/1976-report-flagged-joshimath-sensitive-warned-against-heavy-construction-felling/