NEWS ITEMS ON CAG/ AUDIT REPORTS

1. 5 ways to resolve the unfinished agenda of freebies *(fortuneindia.com)* 17 October 2023

India needs to go beyond FRBM Act of 2003, set up a 'fiscal council' to redefine, expand the scope and monitor all fiscal practices

Now that five state elections are scheduled for November 2023, state governments' 'revdi' (freebies) and 'revdi culture', their rising debt and off-budget expenditures are back in focus. On October 6, 2023, the Supreme Court issued fresh notices to the chief ministers of Rajasthan and Madhya Pradesh over their announcement of election freebies. The Centre has already warned that "financially irresponsible policies and populism may give political results in the short term but will extract a great social and economic price in the long term" and that "those who suffer those consequences the most are often the poorest and the most vulnerable".

These are legitimate issues about fiscal management (freebies, off-budget borrowing and debt) and hence, must be debated and fixed.

But the chances are that this round of debate would end up, like the one in 2019 and 2022 – seasonal, political, partisan and inconclusive. On the previous two occasions, the debate began immediately after the BJP lost elections in important states – which were fought on competitive promises of welfare and populist schemes – and ahead of the next round of elections. Once the next round of elections was over, the issues were forgotten. This time too it seems no different.

Recall January 2019 when the farm loan waivers announced by Congress-ruled states (Rajasthan, Madhya Pradesh and Chhattisgarh) were described as "lollipops" and "political stunts". The BJP had lost the election in all those three states, the 2019 general election was looming and then Congress president Rahul Gandhi was proposing a minimum income guarantee scheme 'NYAY' – to transfer ₹6,000 per month (₹72,000 a year) to 50 million poor families. The two questions raised then were: Will India's fiscal condition allow this and how the beneficiaries would be selected. This was after six BJP-ruled states had announced farm loan waivers – Uttar Pradesh (2017), Maharashtra (2017), J&K (2017), Chhattisgarh (2015), Rajasthan (2018), Madhya Pradesh (2018) – and two more BJP-ruled states, Assam (2018) had declared 25% farm loan waiver and Gujarat had waived off power bills of farmers (2018).

The debate ended with the Centre declaring ₹6,000 per year to farmers in the 'vote-on-account' budget on February 1, 2019.

In 2022, the RBI made the beginning, in its June 2022 bulletin. It sparked off the debate by warning of a Sri Lanka-like fiscal crisis by cautioning against fiscal profligacy of state governments but was silent on the Centre's fiscal performance. It corrected itself seven months later in January 2023 and commended state governments for their fiscal prudence. This came five months after the finance ministry think tank National Institute of Public Finance and Policy (NIPFP) had already contradicted the RBI's June 2022 findings. The RBI had done a rushed job – which was unwarranted, given the long history of states outperforming the Centre in every single fiscal parameter in the entire 2011-12 GDP period.

But by then, 'revdi' and 'revdi culture' had been introduced in public debate in July 2022. The Supreme Court conducted daily hearings in August 2022 – to which the Election Commission of India (ECI) and Finance Commission (FC) were dragged in.

The debate remained inconclusive. The court referred the matter to a three-judge bench to take it forward – which is yet to be constituted. The ECI asked political parties to disclose the cost of freebies they announce – which is not feasible because none has defined what is a freebie and which are 'rational' or 'irrational' (used by the court), 'merit' or 'non-merit' (used by the RBI), 'populist' or otherwise (used by the FC), 'unwarranted' or 'wasteful' (used by others). Budget documents and Economic Surveys use different terms altogether – 'subsidies' for the poor and 'stimulus', 'tax incentive' or 'revenue foregone' for the rich (HNIs) and businesses and trusts.

The existence of these terms underlines the fact that freebies per se are a necessity in India because it is home to the maximum poor (228.9 million) and maximum hungry (224.3 million) in the world. Nonetheless, good fiscal management calls for eternal vigilance.

For a closure to the debate, the following five measures are necessary.

What is a freebie?

First, 'freebie' needs to be defined – for both the Centre and states.

The Centre runs many welfare schemes that can be called freebies: Subsidised LPG cylinders to poor families in which a ₹200 cut was announced recently; "free" PDS to 67% households (₹2.87 lakh crore given for this in FY23 (RE); fertiliser subsidy to industry (₹22.5 lakh crore given in FY23 (RE); the PLIs and DLIs to industry (allocated ₹2.82 lakh crore); ₹1.45 lakh crore corporate tax cut in 2019; annual average NPA write-off of ₹1.62 lakh crore during FY15-FY23 (total of ₹14.56 lakh crore); annual cash transfers of ₹6,000 to farmers (₹60,000 crore given in FY23) etc.

So is the case for states: 200 units of free electricity and 20 KL of free water by the NCT of Delhi, free bus travel for women by Delhi and Karnataka governments, 10 kg free rice for BPL families by Karnataka government etc.

Second, limits to freebies. The limit could be a percentage of revenue or fiscal deficit of states/Centre.

How much freebies states give is known – the RBI said (June 2022)[18] said it was 0.1% to 2.7% of respective GSDPs in FY23 (BE), with only two of nine states it tracked recorded over 2%. The RBI (January 2023) also found 19 of 31 states/UTs were revenue surplus in FY23 (BE). Their total revenue deficit was 0.3% of the GDP and fiscal deficit 3.4% of the GDP in FY23 (BE).

No such exercise has been undertaken by the RBI for the Centre. In FY23 (RE), the Centre's revenue deficit was 4.1% and fiscal deficit 6.4% of the GDP – far higher than those of states.

Off-budget accounting and disclosures

Third, accounting standards and disclosure norms for off-budget borrowings.

Off-budget borrowings are not easy to detect; the very nomenclature makes that clear. Only the CAG can do the job because it has the power to seek documents and ask questions and clarifications from governments. But even then, it isn't quite possible to monitor off-budget borrowings – which will become clear soon.

Recall the Centre's budget for FY22. It showed, for FY21 (RE) fertiliser subsidy was ₹1.34 lakh crore – 1.9 times the budgeted ₹71,309 crore and food subsidy was ₹4.2 lakh crore – 3.5 times the budgeted ₹1.2 lakh crore. This couldn't have been possible without hidden off-budget borrowings (totalling ₹3.69 lakh crore) – even if it was a pandemic fiscal. There is little logic to support 1.9 times rise in fertiliser subsidy in a pandemic year; food subsidy would have gone up by a maximum of 2 times, given the additional "free" ration, but not by 3.5 times.

Few know that this extraordinary spending (RE) happened despite the introduction of "statement of extra budgetary resources (EBRs)" – or "statement 27" in the "expenditure profile" – in FY20.

This statement is supposed to disclose all off-budget borrowings. The "statement 27" of FY24 (BE) shows, between FY17-FY22 (six fiscals), off-budget borrowings amounted to a mere ₹1.39 lakh crore – a lot less than ₹3.69 crore of extra subsidy outgo in FY21 (RE) alone! How did that happen?

The "statement 27" for FY24 (BE) also shows "nil" off-budget borrowings in FY23 (BE and RE) and FY24 (BE). Watch out for the next "statement 27" to see, for example, how the additional spending of over ₹3,110 crore for the G20 summit in New Delhi is accounted for. The budget allocation for the G20 summit was a mere ₹90 crore – against which the actual spending is over ₹4,100 crore.

Here is more evidence of bad off-budget disclosures.

Delhi-based think tank, Centre for Social and Economic Progress (CSEP), published a study on off-budget borrowings in June 2023, "An Analysis of Off-Budget Borrowings by Indian Governments and their Legal Context". For this study, the CSEP relied on CAG audit reports because it said budget documents didn’t give proper accounts (due to "non-standard accounting").

About the Centre's disclosures, it said: "The CAG audits from 2020-2022 of the union government point out the inadequacies of Statement 27, which include deficiency in the format, and incomplete and non-disclosure of certain entities' debt." About states, it said, their disclosures are (i) "highly understated" and suffer from additional deficiencies like (ii) for states like Madhya Pradesh, Uttarakhand and Gujarat "no data is available at all" and (iii) for many other states, data is "not consistently available for the last few years".

Sharp rise in Centre's debts

Fourth, a 'fiscal council' to redefine standards and monitor fiscal management. This is essential as the CAG is not good enough a watchdog.

Several older Finance Commission reports had recommended a 'fiscal council' for better fiscal management; the 15th one sought a "high-powered inter-governmental group". Such a mechanism is essential. Besides, the Inter-state Council (ISC) and National Development Council (NDC) – both are non-functional after 2015 – also need to be revived to get a better handle on fiscal management.

Fifth, empowering 'fiscal council' to set new standards on fiscal deficit and debt.

The logic is simple: (i) higher debts are needed to boost growth, particularly when private investment is muted for long and also (ii) because the IMF, which put the limits that the FRBM Act of 2003 adopted, has argued for upward revision in both fiscal deficit and debt limits in view of the changed financial realities in both in the pre-pandemic low interest rate regime and the post-pandemic needs for higher fiscal supports to people and businesses which went through hardships.

Incidentally, states outperform the Centre in government capex too.

During the past 12 fiscals of FY12-FY23, the share of government capex for the Centre and state are in the ratio of 36:64 – exactly the reverse of their tax collections – 62:38. Which means, the Centre collects more tax but spends comparatively less on capex than states.

'Fiscal council' needs to keep in mind that the Centre has (i) more tax rights like monopoly over direct taxes (on individual income and corporate profits), while states gave up several indirect tax rights by adopting the GST. It collects more revenues through tools unavailable to states, like (ii) cess and surcharges (risen in recent years) and (iii) disinvestments and privatisations (risen in recent years) – which are not shared with states – and (iv) dividend and surplus transfers from the RBI and CPSUs (risen too). It was, in fact, the demand for additional ₹2-3 lakh crore transfers from the RBI ahead of the 2019 general elections that caused a clash between the two – former RBI Deputy Governor Viral Acharya disclosed recently. Besides, (v) devolution of Finance Commission award to states is falling in recent years.

To sum up, the 'revdi' debate must lead to new standards and better monitoring of fiscal management by both the Centre and states, equity and 'cooperative federalism' between them. https://www.fortuneindia.com/macro/5-ways-to-resolve-the-unfinished-agenda-of-freebies/114489

STATES NEWS ITEMS

2. 'Lack of fiscal prudence', Punjab Governor shoots off letter to CM Bhagwant Mann *(tribuneindia.com)* 18 October 2023

Governor Banwarilal Purohit has told Chief Minister Bhagwant Mann that the performance of the government is causing concern on the issue of "inefficient governance accentuated by lack of fiscal prudence".

The Governor has sought an explanation on additional borrowing by the government, over and above what was approved by the Assembly in the Budget, as it has not been utilised for the creation of capital assets.

In his latest letter fired at the CM today, a copy of which is with The Tribune, Purohit has also accused the government of diverting capital receipts for undisclosed purposes and sought a clarification on the issue.

Official sources in Raj Bhawan said the Governor had consulted officials in the office of the Comptroller and Auditor General, Punjab, before shooting off the letter as he found discrepancies in the utilisation of borrowings made by the government and the audited reports of the CAG.

"I am asking this question for the sake of transparency. I assure you that once such a comprehensive picture is available, we can approach the Government of India for assistance as the Prime Minister has always expressed commitment for Punjab," reads the letter, also advising the CM that all public borrowings should be carefully calibrated so that the youth are not imperiled by unsustainable debt. Borrowings should ideally be leveraged for creation of capital assets and not for rolling out populist measures, he has further said.

This letter, the second one written by the Governor to the government on the issue of fiscal health of the state, says that the state is expected to follow prudent fiscal policies to manage its scarce financial resources.

On September 22, the Governor had written a letter asking the state government to explain how they had raised debt of Rs 50,000 crore in the past 18 months.

In his letter sent to CM today, Governor Purohit has said, "As per the information available, the state government is not managing its fiscal resources in an effective and efficient manner. For instance, in 2022-23, the government had borrowed Rs 33,886 crore, as against the approved amount of Rs 23,835 crore. This additional borrowing needs to be explained as it has not been utilized for creation of capital assets.

Funds used for clinics, schools

Sources in the government have said the funds have been used for building schools of eminence, mohalla clinics and for the upgrade of district hospitals. Everyone knows that the first year in government for any political party is spent on analysing the areas where asset building is necessary. However, the AAP government not only built assets in the first year of rule, but also spent money on welfare schemes for people, including 300 units of free power to domestic consumers. https://www.tribuneindia.com/news/punjab/lack-of-fiscal-prudence-punjab-guv-shoots-off-letter-to-cm-mann-554169

3. Punjab governor fires another missive, questions AAP govt's fiscal management *(hindustantimes.com)* 17 October 2023

Days after chief minister Bhagwant Mann shared details of debt raised by his government and its utilisation, Punjab governor Banwarilal Purohit shot off another missive to him on Tuesday, raising questions over the state government's fiscal management, lack of transparency and diversion of funds meant for capital expenditure for "undisclosed purposes".

In a two-page letter to Mann, Purohit said the state government is expected to follow prudent fiscal policies to manage its scarce financial resources, but as per the information available, it is not managing its fiscal resources in an effective and efficient manner. He has asked the government to explain additional borrowing and its utilisation for purposes other than creation of capital assets along with accurate data, pointing to substantial variation in feedback from the comptroller and auditor general of India (CAG) and figures made available to him by the chief minister.

The governor's letter, which questions the government's lack of fiscal prudence, comes two weeks after the chief minister wrote to him that his government added ₹47,107.6 crore to the state debt in the past one-and-a-half years, and 57% of it had gone into meeting the interest liability on legacy debt of the state. Mann, in his reply to the governor's September 21 letter, blamed his predecessor for the hefty debt left behind by them.

Purohit had sought accountability from Mann regarding utilisation of ₹50,000 crore debt raised by his government in the past one-and-a-half years. Mann and Purohit have had frequent run-ins on a number of issues, including summoning of special sessions, appointments to various institutions, adherence to legal procedures, etc. over the past one year, and this exchange of letters over the state's fiscal management is only the latest flashpoint.

Explanation sought on ₹10K crore additional borrowing

In Tuesday's communication, the governor said that in 2022-23, the state government borrowed ₹33,886 crore, as against the approved amount of ₹23,835 crore, which was over ₹10,000 crore more than the amount approved originally by the state assembly in the budget. "This additional borrowing needs to be explained as, apparently, it has not been utilised for creation of capital assets. This is evident from the fact that the effective capital expenditure dropped by over ₹1,500 crore from a projected ₹11,375.59 crore to ₹9,691.53 crore," he wrote.

Purohit pointed out said the additional borrowing was not even used to discharge legacy interest obligations, as per the figures projected in the revised estimates in this regard. This, in fact, demonstrated that the total payments defrayed on this account during the year finally stood at ₹19,905 crore, as against a projection of ₹20,100 crore in the budgetary estimates for 2022-23, he added. He expressed concern over the shortfall in the capital expenditure target in the first five months of this financial year, pointing out that only 12% of the projected capital expenditure has been achieved so far this year.

Asked to create capital assets, show fiscal prudence

Referring to power theft and losses of electricity utilities, Purohit advised the chief minister that borrowings should ideally be leveraged for the creation of capital assets and not for rolling out populist measures. "I agree that welfare measures should be implemented comprehensively, but financial prudence demands that such welfare measures should be accompanied by fiscal discipline, resource mobilisation from curbing pilferages, cutting down on unproductive expenditure and shunning fiscal profligacy," he wrote, giving the example of technical and commercial losses of the power utilities of Punjab.

He said good governance demands that such electricity theft must be curbed, and the resultant savings should be utilised to subsidise the weaker sections of society, lest it amounts to facilitating large-scale pilferage of public funds to wrongly enrich the undeserving.

'Govt's performance causing concern'

The governor said it is high time that honest efforts are made to bring Punjab back to robust fiscal health and utilise the savings to enhance the welfare of Punjab by efficient governance accentuated by fiscal prudence. "In this context, the performance of the government is causing concern. All public borrowings should be carefully calibrated so that the youth of Punjab are not imperilled by unsustainable debt," he said, assuring Mann that once a comprehensive picture was available, they could approach the Government of India for appropriate assistance as the Prime Minister had always expressed his commitment for Punjab.

Mann, while furnishing information to the governor on October 3 on the state debt and finances, had asked him to convince the Prime Minister to release the rural development fund (RDF) of the state and also accord a moratorium on debt repayment of the state for at least five years. https://www.hindustantimes.com/cities/chandigarh-news/punjab-governor-fires-another-missive-questions-aap-govt-s-fiscal-management-101697535818798.html

4. Punjab Governor accuses AAP govt of diverting capital receipts for 'undisclosed purposes' *(daijiworld.com)* 17 October 2023

Punjab Governor Banwarilal Purohit in a letter to Chief Minister Bhagwant Mann on Tuesday accused the state government of diverting capital receipts for undisclosed purposes.

Raising questions on AAP government's fiscal prudence and transparency, Purohit in the letter sought an explanation on "additional borrowing by the government over and above approved by the state Assembly in the Budget".

"Borrowings should ideally be leveraged for the creation of capital assets and not for rolling out populist measures," the Governor said.

"I am asking this question for the sake of transparency. I assure you that once such a comprehensive picture is available, we can approach the government of India for appropriate assistance as the Prime Minister has always expressed his commitment for Punjab, as the welfare of its magnificent people is close to his heart," he added.

Purohit advised the Chief Minister that all public borrowings should be carefully calibrated so that the youth of Punjab are not imperilled by unsustainable debt.

The letter noted that the state is expected to follow prudent fiscal policies to manage its scarce financial resources.

Earlier, the Governor had written a letter asking the government to explain how they have raised debt of Rs 50,000 crore in the past 18 months.

In his latest letter, Purohit said: "As per the information available, the state government is not managing its fiscal resources in an effective and efficient manner. For instance, in 2022-23, the state government has borrowed Rs 33,886 crore, as against the approved amount of Rs 23,835 crore, which is over Rs 10,000 crore above the amount approved originally by the state Assembly in the Budget. This additional borrowing needs to be explained as, apparently, it has not been utilised for creation of capital assets. This is evident from the fact that the effective capital expenditure dropped by over Rs 1,500 crore -- from a projected Rs 11,375.59 crore to Rs 9,691.53 crore."

"Further, the additional borrowing was not even used to discharge legacy interest obligations, as per the figures projected in the revised estimates in this regard. These, in fact, demonstrate that the total payments defrayed on this account during the year finally stood at Rs 19,905 crore, as against a projection of Rs 20,100 crore in the budgetary estimates for 2022-23," he added.

Quoting the Comptroller and Auditor General (CAG), the Governor said "it indicates that there is substantial variation in the figures furnished by the Chief Minister and the report submitted by the CAG".https://www.daijiworld.com/index.php/news/newsDisplay?newsID=1131289

5. Congress seeks CAG audit of drinking water projects *(newindianexpress.com)* 18 October 2023

BHUBANESWAR: The Odisha Pradesh Congress Committee (OPCC) on Tuesday demanded an audit by the Comptroller and Auditor General (CAG) into alleged large-scale irregularities in the implementation of drinking water projects in the state.

OPCC president Sarat Pattanayak and chairman of the campaign committee Bijay Patnaik told mediapersons here that the state government has floated tenders for 205 drinking water projects worth over Rs 34,806.64 crore and small packages of a particular district were merged to make the tender amount bigger to favour contractors from outside the state.

The Congress leaders alleged small packages in Keonjhar district were merged to take the cost of a project up to Rs 194.5 crore as a result of which no contractor from Odisha could participate in the technical and financial bidding. Similarly, tender was floated for projects worth Rs 262.68 crore and Rs 786.67 crore in Angul and Sundargarh districts. https://www.newindianexpress.com/states/odisha/2023/oct/18/congress-seeks-cag-audit-of-drinking-water-projects-2625022.html

6. Congress smells 'corruption' in execution of water supply projects in Odisha *(orissapost.com)* 17 Oct 2023

Bhubaneswar: Odisha Pradesh Congress Committee (OPCC) Tuesday levelled corruption charges on the Biju Janata Dal (BJD) government in the execution of mega piped water supply projects in the state.

At a press conference here, OPCC president Sarat Pattanayak and campaign committee chairman Bijay Patnaik accused the state government of massive graft in award of tenders for the projects.

"Around 96 per cent of the projects have been given to contractors from outside Odisha. To ensure that people from outside the state get the projects, tenders have been invited combining 5 to 10 projects in one bunch/ package. As a result, local contractors are unable to qualify to participate in the tenders," said Patnaik.

The government has bunched water supply projects covering 214 villages of Angul district in one tender worth Rs 262 crore while in Sundergarh district, one tender invited for a mega project is worth Rs 786 crore, he said, adding, "Due to this bunching, Odia contractors have failed to qualify in the tender process."

The objective of the move is to ensure that non-Odisha contractors bag the tenders and all the kickback money exchanged between the contractors and the government will remain unknown to the locals, the Congress leader alleged.

"Who has taken the decision for bunching the project…the department secretary or the minister or the chief minister?" he asked.

Labelling it as a "mega scam" of the government, Patnaik demanded a high-level inquiry either by the CAG or Lokayukta.

Citing information given by panchayati raj minister in the state assembly, the OPCC president said only 16 out of 205 mega piped water supply (PWS) projects have been completed till now.

Due to the delay, the estimated cost of the 16 completed projects escalated to Rs 1,931 crore from Rs 1,743 crore, said Pattanayak.

Though the projects are supposed to be completed within two years of award of tenders, those were purposely delayed so that the price could be escalated and non-Odisha contractors benefit from it, he alleged.

Ruling BJD leaders were not immediately available to comment on the allegation. https://www.orissapost.com/congress-smells-corruption-in-execution-of-water-supply-projects-in-odisha/

7. कांग्रेस ने पेयजल परियोजनाओं का कैग से ऑडिट कराने की मांग की *(jantaserishta.com)* 18 Oct 2023

भुवनेश्वर: ओडिशा प्रदेश कांग्रेस कमेटी (ओपीसीसी) ने मंगलवार को राज्य में पेयजल परियोजनाओं के कार्यान्वयन में कथित बड़े पैमाने पर अनियमितताओं की नियंत्रक एवं महालेखा परीक्षक (सीएजी) से ऑडिट कराने की मांग की।

ओपीसीसी अध्यक्ष शरत पटनायक और अभियान समिति के अध्यक्ष बिजय पटनायक ने यहां मीडियाकर्मियों को बताया कि राज्य सरकार ने 34,806.64 करोड़ रुपये से अधिक की 205 पेयजल परियोजनाओं के लिए निविदाएं जारी की हैं और ठेकेदारों को लाभ पहुंचाने के लिए निविदा राशि को बड़ा करने के लिए एक विशेष जिले के छोटे पैकेजों को मिला दिया गया है। राज्य के बाहर से.

कांग्रेस नेताओं ने आरोप लगाया कि क्योंझर जिले में छोटे पैकेजों को एक परियोजना की लागत 194.5 करोड़ रुपये तक ले जाने के लिए विलय कर दिया गया, जिसके परिणामस्वरूप ओडिशा का कोई भी ठेकेदार तकनीकी और वित्तीय बोली में भाग नहीं ले सका। इसी तरह, अंगुल और सुंदरगढ़ जिलों में 262.68 करोड़ रुपये और 786.67 करोड़ रुपये की परियोजनाओं के लिए निविदा जारी की गई थी। https://jantaserishta.com/local/odisha/congress-seeks-cag-audit-of-drinking-water-projects-393098

SELECTED NEWS ITEMS/ARTICLES FOR READING

8. India's ambitious defence projects await approval: Aircraft Carrier and Fighter Jets *(financialexpress.com)* Oct 18, 2023

India's defence landscape is on the cusp of significant transformation as the Indian Navy and Air Force await approval for key projects that promise to bolster the nation's security capabilities.

The Indian Navy has put forth a proposal for a new aircraft carrier, resembling the existing INS Vikrant, at an estimated cost of approximately Rs 40,000 crore. Additionally, the Indian Air Force (IAF) seeks 97 more Light Combat Aircraft (LCA)-MK1A fighters, with a budget of around ₹67,000 crore. These projects, totaling over Rs 1 lakh crore, are currently under consideration by the Defence Acquisition Council (DAC).

Chaired by the defence minister, the DAC is expected to meet this month to deliberate and make decisions regarding these crucial projects. Notably, these proposals, including the second Indigenous Aircraft Carrier (IAC)-II and 97 LCA-MK1A fighters, have already received clearance from the Defence Procurement Board (DPB).

The IAC-II, displacing 45,000 tonnes, has garnered approval from the DPB, indicating an imminent start to the project. This next-generation carrier will incorporate modifications and integrate advanced technologies into the original design, continuing the legacy of the country's first Indigenous Aircraft Carrier, INS Vikrant, commissioned in September 2022. Cochin Shipyard Limited (CSL) is slated to undertake its construction.

Furthermore, the IAF is taking steps to enhance its air power. Air Chief Marshal VR Chaudhari recently announced a proposal for an additional 97 LCA-MK1A fighters to complement the existing 83 on order from Hindustan Aeronautics Limited (HAL). This expansion, with an estimated cost of Rs 1.15 lakh crore, will lead to a fleet of 180 LCA-MK1A jets and 220 of the MK1 variant.

It has been reported earlier by Financial Express Online that the HAL signed a major contract with the Ministry of Defence in 2021, valued at Rs 48,000 crore, to supply 83 LCA-Mk1A fighters, known for their superior capabilities compared to the current LCA-MK1. Under the terms of the agreement, the IAF is scheduled to receive three LCA-MK1A aircraft in February of the following year, with 16 more annually for the subsequent five years. Additionally, the delivery of larger LCA-MK2 jets is anticipated to commence from 2032, ensuring the completion of all LCA-MK1A deliveries by that time. HAL plans to ramp up production to 24 aircraft annually.

Addressing another vital aspect of India's defence capabilities, the long-awaited upgrade of 84 SU-30MKI fighter jets is set to commence. This upgrade will predominantly be an indigenous effort, involving the enhancement of 51 systems with an impressive 78 percent indigenous content.

Russia, the original equipment manufacturer, will play a role in upgrading certain aspects, including the fly-by-wire system and systems integration. However, the majority of upgrades, such as radar and avionics, will be of indigenous origin. The Defence Research and Development Organisation (DRDO) is working on the development of the Uttam Advanced Electronically Scanned Array (AESA) radar, which is expected to be integrated into these fighter jets.

These defence initiatives reflect India's commitment to strengthening its military capabilities and ensuring the security and sovereignty of the nation. As they move towards realization, they mark significant milestones in the country's defence modernization efforts. https://www.financialexpress.com/business/defence-indias-ambitious-defence-projects-await-approval-aircraft-carrier-and-fighter-jets-3276083/

9. Army to Procure Fast Patrol Boats, Landing Crafts for Rapid Reaction and surveillance In Border Areas *(swarajyamag.com)* Oct 18, 2023

In an effort to bolster its surveillance and rapid-reaction capabilities, the Indian Army has initiated a procurement process for six fast patrol boats, eight landing craft assault (LCA) vessels, and 118 integrated surveillance and targeting systems for border areas, reported Economic Times.

The fast patrol boats will primarily serve in surveillance roles in water bodies in eastern Ladakh, including the Pangong Lake.

Despite some disengagement in multiple areas following extensive diplomatic and military talks, Indian and Chinese troops have remained locked in a standoff along certain friction points along the LAC in eastern Ladakh.

The army has already issued a request for information (RFI) for the acquisition of fast patrol boats, LCAs, and integrated surveillance and targeting systems, the officials stated.

The RFI for fast patrol boats specifies that the vessels should be "rugged and versatile to facilitate seamless execution of small team insertion, surveillance, reconnaissance, and patrolling".

Additionally, they should be capable of operating in diverse terrains and conditions. These indigenously-developed boats should have a maximum speed of 29 knots (at sea state level 2) and a capacity to carry eight people.

The initial tender for LCAs states that they are intended for use in search and rescue operations in the creek area and river basins.

The LCAs should have a length between 13-14 metres and a maximum speed not less than 20 knots. Typically, LCAs are employed for transporting troops.

The deadline for responding to the initial tenders for fast patrol boats and LCAs is 28 November.

The integrated surveillance and targeting systems are being procured for utilisation by mechanised forces in border regions. These systems are categorised under the 'buy Indian' classification and must incorporate a minimum of 60 per cent indigenous content. https://swarajyamag.com/defence/army-to-procure-fast-patrol-boats-landing-crafts-for-rapid-reaction-and-surveillance-in-border-areas

10. Rise in debt and guarantees a concern for states: Icra *(financialexpress.com)* Oct 18, 2023

Capital spending by thirteen major states will likely surge by 29% in FY24, supported by loans from the Centre, but the leverage level of the states studied indicated a worrying rise in their debt and guarantees to 30% of GSDP from 28.9% in FY23, rating agency Icra said on Tuesday.

Icra has projected the combined capital spending of these major states– Andhra Pradesh, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh and West Bengal—to be Rs 6.2 trillion in FY24 from Rs 4.8 trillion in FY23. Their FY24 capex Budget Estimate is Rs 6.7 trillion.

"The anticipated YoY surge in capex benefits from the prescient support extended by the Government of India (GoI) to the state governments through the increase in the allocation for the Scheme for Special Assistance to States for Capital Investments to Rs 1.3 trillion in FY24 BE from the Rs 0.8 trillion loans disbursed to them in FY2023," Icra chief economist Aditi Nayar said.

With revenues likely to trail the budgeted targets, the revenue and fiscal deficits of the sample set are estimated at Rs 2.1 trillion and Rs 8.3 trillion, respectively, in FY24, exceeding the budgeted of Rs 1.4 trillion and Rs 7.7 trillion, respectively. So, the aggregate fiscal deficit in FY24 is projected to widen to 3.4% of GSDP from the budgeted 3.1% and 2.6% in FY23. The revenue deficit could widen to 0.9% of GSDP from FY24BE of 0.6% and 0.5% in FY23.

Fiscal deficit of AP, MP, Rajasthan, TN, UP and WB is forecast at 3.5-4.2% of GSDP in FY2024; Gujarat and Maharashtra below 3% of GSDP.

"In a discomfiting trend, the combined leverage (debt+ guarantees) level of the sample is expected to increase to 30% of the GSDP in FY24 from 28.9% of the GSDP in FY23, with continuing variation across the states," Nayar said.

ICRA projects several states in the sample to have adequate funds for completing 90-100% of their budgeted capex in FY2024, while a few states may have to compress their spending by a sizeable extent such as Punjab. Notably, some states' net borrowing ceiling (NBC) for FY2024 would be adjusted by the Centre on account of the incremental off-budget borrowings, which they had raised in FY22.

Additionally, Icra projected the grants from the Centre to the states in FY24 to decline sharply from the year-ago level, mainly on account of the discontinuation of the GST compensation grants and because of the tapering nature of the Finance Commission-recommended grants. Therefore, ICRA estimated total grants to the 13 states at Rs 3.2 trillion in FY24, nearly two-thirds of the budgeted amount and the lowest since FY20.

The agency has estimated gross state government securities issuance by states at Rs 9.5 trillion in FY24, up 25% on year. https://www.financialexpress.com/policy/economy-rise-in-debt-and-guarantees-a-concern-for-states-icra-3275653/

11. H1 highway construction just over a quarter of annual target

(financialexpress.com) Oct 18, 2023

The pace of highway construction fell sharply in September with only 371 km of stretches completed during the month which is much lower than the average of 639 km a month in the April-August period.

At the end of the first half of this financial year, highway stretches of a total of 3,567 km have been completed, while for the full year, the target is 13,800 km.

In FY23, 3,559 km of highways were built in April-September and 10,331 km in the whole year.

The awards for September have shown improvement of 530 km as compared to the average of 347 km in the April-August period. In the first half 2,286 km of highways have been awarded while in the previous year in the same period this figure stood at 4,092 km.

The pick up in awarding contracts for highways was expected as officials had said that issues responsible for the slowdown have been substantially addressed. For the full year the target for awarding of highways has been set at 12,500 km.

Of the total 12,500 km of highways to be awarded this FY, around half of it would be through National Highways Authority of India and rest through National Highways and Infrastructure Development Corporation and Ministry of Road Transport and Highways' Road Wing.

The ambitious Bharatmala Project offers a strong pipeline of projects.

While pace of construction has slowed during September, the Ministry of Road Transport and Highways has reverted to its original plan of exhausting 91% of its capital outlay by December-end. In August this number was scaled down to 80%.

The resetting the spending target has been necessitated by expenditure of Ra 50170 crore in September. At the end of September the ministry had spent Rs 1.62 trillion or 62% of its capital expenditure outlay of Rs 2.58 trillion. Last year during the same period Rs 1.21 trillion had been spent by the ministry in the first half.

Despite a slower pace in the first half, the ministry is confident of meeting its aim of highway building this year. Last year too by December it had managed to complete 5744 km of highways and then speed picked up and by end of March the total length achieved was 10,331 km. https://www.financialexpress.com/business/roadways-h1-highway-construction-just-over-a-quarter-of-annual-target-3275632/

12. India's quest to become a global manufacturing hub *(timesofindia.indiatimes.com)* Oct 17, 2023

As the world 'de-risks' i.e., moves supply chains out of China, India is presented with a window of opportunity to realize its long-cherished ambition to become the factory of the world. India's leaders have thought for decades that the manufacturing-led economic growth model, which served Northeast Asian nations like China, Japan, and South Korea so well, can be replicated in India. Like China, India has an enormous pool of skilled and unskilled labour – a prerequisite to becoming a low-cost manufacturer and exporter.

'Make in India', Sell to the World

The 'Make in India' initiative was rolled out to encourage global manufacturers to move their factories to India. Though the initiative has been successful, it has fallen short of transforming India into the world's factory, a mantle still held by China.

The initiative has made India a leading manufacturer of smartphones.

Between 2014 and 2022, India shipped 2 billion domestically assembled smartphones and feature phones. In 2022, 98% of phones shipped in India were produced domestically and 16% of such phones were exported. To put this in perspective, in 2014 just 19% of phones shipped in India were domestically assembled.[1].

Vision Behind Make in India

By making India a leading manufacturer of smartphones, the government expects to boost economic growth, create jobs, and reduce dependence on imports. The line of reasoning is that just as China, Korea, and Japan started by manufacturing low-cost goods in vast factories using legions of unskilled and skilled labour, India will too. And as China, Korea, and Japan gradually moved up the value chain to become manufacturers and sellers of world-beating cutting-edge products and became home to marquee brands, so will India.

To replicate these countries' growth trajectories in India, several policies, and initiatives besides 'Make in India' are already in play.

Production-Linked Incentive Scheme

One such scheme – the Production-Linked Incentive (PLI) – which aims to boost manufacturing in India by giving manufacturers subsidies, has had considerable success. When the PLI was introduced in 2020, it provided subsidies to just 3 categories of manufactured goods. Today, it covers 14 categories, including mobiles.

The Indian government allocated 1.97 crore to the PLI's 14 sectors. Until March 2023, 733 applications from manufacturers have been approved. Though investments by manufacturers are expected to the tune of INR 3.65 lakh crore, thus far, just INR 62,500 crore has been invested. Investments so far have resulted in an increase in production and sales of 6.75 lakh crore and generated employment for 3.25 lakh people[2].

The smartphone sector is the PLI's biggest success story so far. In the current financial year, mobile phone exports are expected to cross 1.2 lakh crore. In the previous financial year, such exports stood at INR 90,000 crore.

Modified Special Incentive Package Scheme

Another scheme to spur manufacturing – the Modified Special Incentive Package Scheme or M-SIPS – was launched in 2012 to encourage the development of a semiconductor and display manufacturing ecosystem in India. The scheme thus far has had a limited impact in bringing semiconductor manufacturing to Indian shores.

Creating a Skilled Workforce

The Indian government knows that for 'Make in India' and 'PLI' to be successful, the country needs a more skilled workforce. India's leaders also know that for India to become a thriving 21st-century economy, it needs skilled workers in every sector, including in the tertiary sector.

To create such a workforce quickly, the Indian government launched the National Skill India Mission in 2015. The mission aims to address the fragmented approach of previous skill-building programs[3]. Its objectives are thoughtfully aligned with the government's vision to transform India into a dynamic thriving modern economy. It'll go a long way in creating a workforce that has the skills to work in modern factories where smartphones are assembled and manufactured.

Infrastructure Gains

In addition to creating a more skilled workforce, the Indian government is making sweeping changes to address India's biggest constraint to growth – the country's poor infrastructure.

Today infrastructure in India is being developed at a more robust pace than anywhere in the world – outside China. It's forecasted that the Indian government will increase capital expenditure on roads from .5% of GDP in 2020 to .8% of GDP in 2023. The country is adding 10,000 km to its highways every year. It's estimated that India' will spend 1.7% of its GDP on infrastructure this year – twice as much as the USA and most European countries.

The continued building of such infrastructure will lower the cost of transporting devices across India and overseas.

National Single Window System

To make it easier for foreign traders to do business in India, the government has introduced a National Single Window System. With this service, foreign traders in India can submit all information to a single agency. They're spared the ordeal of having to visit multiple agencies in multiple locations for clearances, papers, and permits. This initiative will make it easier than ever for foreign entities to enter the Indian market and commence operations.

In January, a leading multinational showered praise on the Andhra Pradesh government for making doing business in the state easier thanks to its NSWS. There are many such instances of NSWS' success.

R&D High

To foster innovation, India is investing significantly in R&D. Today, the country spends approximately $65.2 billion on R&D – more than the UK. Leading smartphone manufacturers already have R&D centres in India. At these centres, they're developing products and services that tackle local and global challenges. However, India spends just .65% of its GDP on R&D; moreover, R&D's share in GDP has been falling. India's total expenditure on GDP peaked in 2019 when it almost touched $100 billion.

To foster innovation in the years ahead, what's needed are Government and Industry Partnerships. Successful collaboration between the government and industry players will help overcome challenges and promote innovation. These partnerships will be the driving force behind India's manufacturing ambitions.

A Protectionist Stance

Recently, to encourage foreign manufacturers of laptops and other electronics to start manufacturing in India, the Indian government hiked import duties on imported laptops. The import duties will kick in from November 1st, 2023. Following the announcement, 32 entities, including leading manufacturers like Dell, Asus, Foxconn, and HP, have applied for licenses to manufacture laptops, personal computers, and servers in India. Their entry into India will spur investment and create jobs.

These initiatives focus on boosting domestic manufacturing, especially in electronics and mobile devices, through incentives, subsidies, and regulatory reforms. This strategy has successfully attracted major smartphone manufacturers, creating jobs and fostering technology transfer. The presence of global tech giants has also built a strong supply chain ecosystem, including component suppliers, contract manufacturers, and local assembly units, making India the world's second-largest mobile phone manufacturing country after China.

Realizing the Vision of 'Make in India'

India's potential as a global mobile phone manufacturing hub is bolstered by its abundant and cost-effective labor force. To realize this potential, gradual development of manufacturing capabilities, starting with assembly, and progressing to advanced components, is key, mirroring the success stories of China, Korea, and Japan.

Removing tariffs on imported parts is crucial for this growth. Increasing import duties on phones can incentivize manufacturers to set up shop in India, spurring investments and job creation.

Domestic smartphone brands should prioritize top-notch technologies to succeed in both Indian and global markets. India's 'Make in India' initiative, backed by government support, infrastructure investments, and R&D, positions it as a vital player in the global tech industry. As the world looks for alternatives in the supply chain, India's star is shining brighter than ever when it comes to smartphone manufacturing, and the country's journey will be one worth watching! https://timesofindia.indiatimes.com/blogs/voices/indias-quest-to-become-a-global-manufacturing-hub/

13. Pune metro project faces cost overrun; decision pending on central, state share *(hindustantimes.com)* Oct 18, 2023

Originally estimated at ₹11,420 crores, the metro project's anticipated cost is now expected to surpass ₹13,000 crores

PUNE: Owing to several challenges such as pandemic-induced delays, changes in the project's location, and escalated expenses in acquiring land, the estimated cost of the Pune metro project has soared from ₹11,420 crores to more than ₹13,000 crores.

On Monday during a press conference at the Pune District Collectorate, minister of state for external affairs, V Muralidharan, disclosed worrying details about the Pune metro project which is being executed by the Maharashtra Metro Rail Corporation Limited (Maha Metro).

Collector Dr Rajesh Deshmukh; MLAs Bhimrao Tapkir, Sanjay Jagtap and Ravindra Dhangekar; and Zilla Parishad chief executive officer Ramesh Chavan were present at the meeting. In the meeting, 41 schemes including the Pune metro project were reviewed.

A meeting was held of District Development Coordination and Monitoring Committees (DISHAs) that have been formed to ensure better coordination among all elected representatives in the parliament, state legislatures and local governments (Panchayati Raj institutions/municipal bodies) for efficient and time-bound development. It is a government-wide initiative that seeks to promote participative governance and deliberative democracy.

During the DISHAs' meeting, Muralidharan said, "This additional expenditure of around two thousand crores of rupees has sparked concerns, with the approval process for the escalated cost currently underway. The cost has increased due to taxes and land cost. Land cost increases as the economy rejuvenates after the Covid-19 pandemic."

"Originally estimated at ₹11,420 crores, the metro project's anticipated cost is now expected to surpass ₹13,000 crores. However, a decision concerning the allocation of increased costs between the central and state authorities is yet to be finalised," Muralidharan said.

PCMC to Swargate operational in March

Regarding the progress of the Pune metro, minister Muralidharan emphasised the completion of the Pimpri-Chinchwad to Swargate phase by next March. The Vanaz to Ramwadi metro work has entered its final stage, with the Swargate metro station nearing completion. Notably, the metro from Ruby Hall Clinic to Ramwadi has undergone successful testing. In a month, the Ruby Hall Clinic to Ramwadi route will be operational.

Pune metro line 1 is operational between Pimpri-Chinchwad Municipal Corporation (PCMC) and Civil Court. Work on the remaining Civil Court to Swargate stretch is going on. Due to delay in handing over the land at Mandai and Budhwar Peth to the Pune metro by the Pune Municipal Corporation (PMC), the work started late on these two underground stations. However, Pune metro officials are hoping to complete the work till March 2024. Pune metro officials have already announced the completion of line 1 and line 2 (Vanaz to Ramwadi) till March 2024. At present, the metro line 2 is running between Vanaz (Kothrud) and Ruby Hall Clinic. https://www.hindustantimes.com/cities/pune-news/pune-metro-project-faces-cost-overrun-decision-pending-on-central-state-share-101697568414180.html

14. Har Ghar Tiranga: Rajkot civic body refuses to pay Rs 12.88 lakh to 3 vendors for 1.42 lakh flag sticks *(indianexpress.com)* Updated: October 18, 2023

Suspecting over invoicing and other irregularities, the Rajkot Municipal Corporation (RMC) on Tuesday rejected a proposal of its central store to pay Rs12.88 lakh to four private entities which had "supplied 1.52 lakh sticks and Tiranga strip" to the RMC for the civic body's Har Ghar Tiranga campaign in the run up to the Independence Day this August.

The standing committee of the RMC trashed a proposal of the RMC central store to pay Rs 9.66 lakhs, Rs 2.63 lakh and Rs 17,580 to Real Graphics, Rajkot, Krishna Timbar

Mart, Rajkot and Jay Agency, Rajkot respectively. According to the proposal, these three agencies had respectively supplied RMC 1.10 lakh, 30,000 and 2000 sticks for RMC's Har Ghar Tiranga programme on August 13 and for Independence Day celebrations on August 15.

"The standing committee rejected the proposal to pay Rs12.48 lakh to the three private vendors as the committee suspected over-invoicing and other irregularities. Sourcing sticks for flags from a graphic designing firm raises several questions," Jaymin Thakar, chairman of standing committee of RMC told The Indian Express.

According to the proposal, the state government sent a communique to RMC on August 4, instructing the civic body to organise Har Ghar Tiranga evnt on August 13 and informing that two lakh National Flas would be allotted to the RMC as part of the state-wide action plan for the event. Accordingly, the state government allotted 1.5 lakh flags to RMC on August 10. Consequently, central store procured 1.42 lakh sticks for the flags without floating tenders. "Sticks were to be distributed with the flags. However, there was no sufficient time for this procurement and as the procurement had to be made in a very short period of time," said the proposal for saying procurement was made without tendering due to the limited time.

The average price worked out at Rs 8.79 per stick. "But they procured 1.10 lakh sticks from a graphic designer and only 30,000 from a timber mart. This raises suspicion," said Thakar said, adding, "The proposal was forwarded to the standing committee early this month also and we had kept it pending at our last meeting and sought some clarifications from vendors. But they didn't give any." https://indianexpress.com/article/cities/ahmedabad/har-ghar-tiranga-rajkot-civic-body-gujarat-8988114/

15. Discrepancies amounting to crores detected in transportation of Milma milk *(english.mathrubhumi.com)* 18 Oct 2023

Thiruvananthapuram: An audit report submitted by the cooperative department revealed details of fraud amounting to crores in Milma. The money was swindled from the expenses for buying and transporting milk to Kerala from other states. The miscreants carried out the frauds by increasing the rents of tanker vehicles and by exaggerating their kilometre readings.

The fraudsters made good use of the demand for additional milk during the Onam season to swindle money. The transportation charges for milk during the season stood at Rs 9.29 per litre. In the audit report by the Thiruvananthapuram regional union, it is said that a loss of Rs 3.69 was incurred for every litre of milk that was brought from Maharashtra to the state, for selling in the form of different dairy products.

Milma had demanded to increase the rate of milk citing the rising production cost. However, the dairy farmers have so far not benefited from it. Similarly, owing to its skyrocketing expenditures, even Milma did not benefit from the hike in its product prices. The audit reports also hints that Milma's profit shares for the time period have also not increased, despite increasing the price of milk and the reported rise in sales.

Frauds

-The extra milk was bought from the Sona and the Nature Delight dairies in Maharashtra. For bringing the milk into Kerala, a contract was simply given to a logistics company called Om Sai Logistics, without inviting tenders. As per the contract, Rs 60 was supposed to be given to the company for every kilometre the vehicle travels.

-In this manner, an additional charge of Rs 1.06 crores was incurred for six months until March 2023, for bringing in milk to Kerala from Maharashtra. Post-March, Rs 2.39 crores have been shelled out for the purpose so far. This will reflect only in the next audit report. After detecting the discrepancies, new tenders were invited for vehicles for transporting milk. Distributors charging Rs 41.19 per litre came to the fore. Now that is Rs 18.31 less than what is being paid for the same purpose now.

-As per the usual rates, Milma spends Rs 40 paise/per litre, as transportation charge, while bringing in milk from other states. But, in a sharp spike, Rs 9.29 was spent for transporting every litre of milk into the state during the Onam season.

Meanwhile, DS Konda, Regional Managing Director of Milma Thiruvananthapuram has dismissed the allegations saying that the corporation did not incur a great loss in bringing milk from other states. However, he has instructed the officials to look into the discrepancies cited in the audit report.
https://english.mathrubhumi.com/news/kerala/discrepancies-amounting-to-crores-of-rupees-detected-in-transportation-of-milma-milk-1.8997327