NEWS ITEMS ON CAG/ AUDIT REPORTS

1. With Elections Near, Debate on Freebies Rages *(rediff.com)*

September 19, 2023

Prime Minister Narendra D Modi has once again sparked a debate on state-provided freebies, emphasising that the long-term consequences of such policies not only harm the economy, but also society, with the poor bearing the brunt.

Populism gains momentum during election periods, and this trend is evident in at least four states: Telangana, Rajasthan, Madhya Pradesh and Chhattisgarh.

Along with Mizoram, these states are scheduled to hold Assembly elections in late November and early December.

Debates on political freebies are always contentious, as those offering them often see them as a form of social welfare.

A more constructive approach is to assess whether a state has the financial capacity to provide such benefits.

Among these four states, Telangana and Chhattisgarh have the financial means to offer freebies, while Rajasthan faces significant fiscal stress.

Madhya Pradesh, despite having high debt, has been running a revenue surplus in recent years, suggesting it has room to provide freebies.

Rajasthan allocates half of its revenue to committed expenditures, such as salaries, pensions, and interest payments.

Even during the tenure of the Vasundhara Raje-led Bharatiya Janata Party government from 2013 to 2018, committed expenditures remained high at 55 per cent of revenue expenditure.

This figure is expected to decrease to 49 per cent in 2022-2023 and 50.2 per cent in 2023-2024, partly due to the state's switch to the Old Pension Scheme (OPS).

However, pension liabilities under OPS will increase after 2034 when employees who joined the state government on January 1, 2004, start retiring.

Rajasthan has reduced its allocation to NPS from approximately Rs 1,926 crore (Rs 19.26 billion) in 2021-2022 (Actuals) to about Rs 5 crore (Rs 50 million) in 2023-2024 (Budget Estimates, or BE).

Chhattisgarh, another state that adopted OPS on April 1, 2022, has slightly lower committed expenditures, ranging from 49 per cent to 43 per cent during the five years of the Bhupesh Baghel-led Congress government.

This was still higher than the 41 per cent left by the Dr Raman Singh-led BJP government (2013-2018) in its final year (2018-2019).

Committed expenditures as a proportion of revenue expenditure are expected to decrease slightly to just over 43 per cent in both 2022-2023 (Revised Estimates) and 2023-2024 (BE) after the state transitioned back to OPS.

The state will also experience increased pressure on pension liabilities as NPS participants start retiring.

Some include subsidies, social security, and other pensions, as well as grants-in-aid for salaries and wages, in the list of committed expenditures.

If these are added, the expanded committed expenditure would further increase in these states.

For example, it was 70.5 per cent in Rajasthan and 59 per cent in Chhattisgarh in 2021-2022.

Increased subsidies would put pressure on revenue expenditure, leaving limited room for capital investments.

Capital outlays constituted 10 to 13 per cent in Rajasthan in recent years, compared to slightly less than 8 per cent in the first two years of the Ashok Gehlot government.

In Chhattisgarh, capital outlays were around 15 per cent, compared to 10 to 11 per cent in the initial two years of the Baghel government.

This may result from long-term loans for capital expenditure (capex) provided to states by the Centre in recent years.

Although Chhattisgarh's own tax revenues contribute only 34 to 36 per cent of revenue receipts, less than Rajasthan's, which could reach around 49 per cent in the current financial year (BE), the former has managed its resources efficiently.

Chhattisgarh had a revenue surplus of approximately 1 per cent of gross state domestic product (GSDP) in 2021-2022 and is projected to maintain a surplus in 2022-2023 and 2023-2024, albeit a smaller one.

Moreover, its debt never exceeded 26.3 per cent of GSDP during the Baghel government, although it was much lower at 17.4 per cent in the final year of Raman Singh's BJP government.

On the other hand, Rajasthan has not achieved a revenue surplus in the past five years, and its debt-to-GSDP ratio has consistently exceeded 35 per cent.

The Vasundhara Raje government left behind debt amounting to 33 per cent of GSDP in its last year.

Salaries, pensions, and interest payments constituted 37 to 48 per cent of revenue expenditure in Madhya Pradesh over the past five years, including the period when the Congress ruled for the first year and nearly three months under Kamal Nath.

When subsidies, wages, and other expenses are factored in, the committed expenditure rises further, reaching 52.9 per cent in 2021-2022.

This situation allowed for capex in Madhya Pradesh, with capital outlays representing 18 to 19 per cent of total expenditure in recent years, compared to 16 per cent during the first two years of the government, including the initial 15 months led by the Congress.

The state also maintained a revenue surplus, albeit a modest one, amounting to 0.4 per cent of GSDP in 2021-2022.

It projected a slight revenue surplus in 2022-2023 and 2023-2024.

In fact, in the first four months of the current financial year, the state reported a revenue surplus of approximately Rs 7,038 crore (Rs 70.38 billion), surpassing the Rs 413 crore (Rs 4.13 billion) projected for the entire year in the Budget, according to data from the Comptroller and Auditor General of India.

This occurred despite the Shivraj Singh Chouhan government's announcement of new schemes.

However, the state's debt position is not as robust, with debt projected to approach 30 per cent in 2022-2023 and 2023-2024.

A study by the Reserve Bank of India last year categorised Madhya Pradesh as one of five high-debt states. In contrast, Rajasthan was included among the five highly stressed states.

It can be argued that if a state like Madhya Pradesh, despite having high debt, maintains a revenue surplus, this should not pose a problem, as part of it can be allocated for capital investments to build assets.

Telangana is a relatively well-managed state financially.

Despite its reputation for freebie politics, the state's debt never exceeded 26 per cent during any of the five years of K Chandrashekar Rao's government.

Debt was as low as 20.3 per cent of GSDP in the final year of the previous KCR government.

However, the state's committed expenditure remained at 44 to 47 per cent of revenue expenditure until 2021-2022.

When subsidies are included, the committed expenditure rises to 54 per cent of revenue expenditure in 2021-2022.

Telangana also projected a revenue surplus of less than 0.5 per cent of GSDP in 2022-2023 and 2023-2024.

However, in the first four months of the current financial year, a revenue deficit of approximately Rs 3,458 crore (Rs 34.58 billion) was reported, contrasting with the projection of a Rs 4,882 crore (Rs 48.82 billion) surplus for the entire year, according to CAG data.

The state's capital outlay saw an increase in 2021-2022, accounting for 17 per cent of total expenditure.

Nevertheless, it is expected to decrease to 12 per cent and 13.5 per cent in the following two years. https://www.rediff.com/news/report/with-elections-near-debate-on-freebies-rages/20230919.htm

SELECTED NEWS ITEMS/ARTICLES FOR READING

2. Budget estimates of tax revenue are on track, but modest *(financialexpress.com)* 20 September 2023

The latest set of data on direct tax collections indicate that tax receipts at the aggregate level are moving along the lines of the Budget Estimates for the current fiscal year. Personal income tax collections have grown at an impressive pace of 36% till date, much higher than the budgeted rate of 11.4%. While the tax on corporate income, the single-largest source of revenue for the Centre, is yielding as much as budgeted after an initial hiccup, the gross goods and service tax (GST) mop-up has hovered around `1.6 trillion/month till August, a level significantly higher than assumed in the Budget. Excise collections—primarily from auto fuels—are lagging the Budget target, but the proceeds from windfall taxes on crude oil and export of petroleum products may partly make up for that.

However, due diligence may be in order. Budget FY24 pegs gross tax revenue growth on a par with the nominal GDP growth of 10.5% assumed, meaning a modest buoyancy of 1. The relatively high GDP growth of 7.8% in the April-June quarter and the boost to GST from elevated inflation have kept tax numbers broadly in line with the Budget so far, but the expected slowing of growth in the remainder of the year could hit collections. That is quite unremarkable for a country which laments that its tax receipts as fraction of national income are close to 10 percentage points lower than the required level of public expenditure on infrastructure, education, healthcare and defence.

Direct taxes are the most effective tool to transfer funds from companies and individuals to the government to ensure people at large have access to high-quality public goods, and these serve as a growth multiplier. There is growing evidence of the limitations of relying on private funds for infrastructure. A low middle-income country like India will therefore have to consciously strive to boost its direct tax collections. However, India's track record on this front is dismal. The share of direct taxes in the Centre's gross tax revenue jumped from 36% to 59% in the decade to FY10, but has since fallen. The FY24 Budget sees this share at 54%, the same level as in FY23, implying the government has little ambition to raise it. If the tax mop-up by states are included, two

thirds of all taxes collected nationally are now indirect taxes, which by definition are "regressive."

The fall in the household savings in the last two financial years and the rise in the stock of household debt are proof that the largest segment of individual taxpayers—the salaried—is being adequately, if not excessively, taxed. However, tax evasion and "aggressive tax panning" are still rampant at the higher end of the income spectrum. It is insupportable that, when less than 1,50,000 individuals report annual income above Rs 1 crore, as many as 35,000 luxury cars are being sold in the country annually, and number of Indians vacationing abroad is skyrocketing. Corporate India's effective tax rate has fallen further in recent years, resulting in the ratio of corporate-tax-to-GDP to hover around just 3%, down from close to 4% during the later part of the first decade of the millennium. There is a case for stepping up tax recovery from corporate India and implementing the anti-avoidance rules with gusto. Also, it must be ensured that firms that access Indian markets from abroad don't hoodwink the taxman here. https://www.financialexpress.com/opinion/raising-tax-targets-budget-estimates-of-tax-revenue-are-on-track-but-modest/3248794/

3. Pension outgo may rise to over Rs 17 lakh crore under OPS as against `4 lakh cr for NPS *(indianexpress.com)* 20 September 2023

By 2050, pension outgo under OPS is projected to touch over Rs 17 lakh crore as against Rs 4 lakh crore under NPS, it said.

Decision by some of the states to revert to the old Pension Scheme (OPS) may put a cumulative fiscal burden on them as high as 4.5 times that of the National Pension Schemes (NPS), a study by Reserve Bank of India (RBI) officials said.

By 2050, pension outgo under OPS is projected to touch over Rs 17 lakh crore as against Rs 4 lakh crore under NPS, it said.

A few states like Rajasthan, Chhattisgarh, Jharkhand, Punjab and Himachal Pradesh have recently announced reversal to the OPS from NPS, also known as the new pension scheme.

The shift to OPS by states would be a major step backwards and can increase their fiscal stress to unsustainable levels in the medium to long-term, the RBI said in an article – Fiscal Cost of Reverting to the Old Pension Scheme by the Indian States – An Assessment, published in its monthly bulletin for September.

In the old pension regime, pension was 50 per cent of the last drawn salary of the employee and the entire amount was paid by the government. As at end-November 2022, the cumulative number of State government employees subscribing to NPS rose to around 50 lakhs with their cumulative contribution in NPS corpus amounting to Rs 2.5 lakh crore

"The ratio of present value of total OPS burden to the present value of total NPS burden reveals that the overall pension burden of the States over the period end-March 2023 to

end-March 2084 will increase on an average by around 4.5 times if they choose to shift from NPS to OPS," it said.
The burden will reach around 0.9 per cent of GDP by the early 2060s, it said.

The OPS is a defined benefit (DB) scheme under which, after retirement, state government employees get a pension fixed at 50 per cent of the last drawn salary. The NPS is a defined contribution (DC) scheme in which the employees' defined contribution is 10 per cent of basic salary and dearness allowances, with a matching contribution from the state government.

The article is authored by the RBI's staff – Rachit Solanki, Somnath Sharma and Samir Ranjan Behera from the Department of Economic Policy Research (DEPR), and R K Sinha from the Monetary Policy Department (MPD). It has been prepared under the guidance of RBI Deputy Governor Michael Patra. The RBI said the views are of authors and not of the institution.

States pension expenditure account for around 38 per cent of their total committed expenditure. The other major heads of the committed expenditure are interest payments and administrative expenses. "For the states, while reverting to OPS may look lucrative in the short-run, the future burden of OPS outgo will eclipse the short-run gains," the article said. https://indianexpress.com/article/cities/mumbai/pension-outgo-may-rise-to-over-rs-17-lakh-crore-under-ops-as-against-4-lakh-cr-for-nps-8947578/

4. India's disinvestment agenda: Why hasn't the policy taken off?

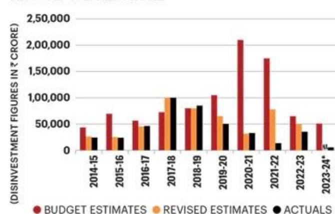
(businesstoday.in) 19 Sep 2023

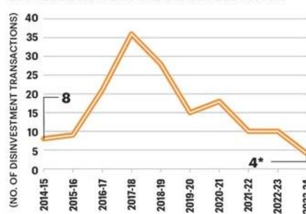
Disinvestment. This word has proved to be a challenge for successive governments. Divesting government equity in public sector enterprises (PSE) has proven to be quite volatile even for the BJP-led NDA government over the past nine years, despite a handful of mega transactions like the privatisation of Air In - dia and public listing of Life Insurance Corporation of India (LIC).

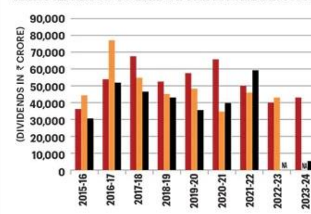
The government's disinvestment strategy has been quite comprehensive, including not just listing and minority stake sales through offer for sale (OFS) and buyback of shares but also strategic sale or privatisation in identified sectors, monetisation of non-core assets as well as closure of those firms that are no longer viable—such as Scooters India. Despite that, the transactions have been fewer in number and smaller in scale. As many as 159 disinvestment transactions have taken place in the last nine years, gov - ernment data reveals. In terms of strategic sales, the Union Cabinet gave in-principle approval to 36 cases of PSEs, subsidiaries and joint ventures since 2016. But of the 33 cases being handled by the Department of Investment and Public Asset Management (Dipam), strategic disinvestment transactions have been completed in only 10, including the privatisation of Air India.

"About 14 transactions are at various stages," Minister of State of Finance Bhagwat Karad had informed the Lok Sabha in July this year. But given the government's mandate with more than 300 seats in the Lok Sabha and its public intent towards strategic sales and disinvestment, expectations were high.

Pranav Haldea, MD of capital markets data provider PRIME Database Group, sums it up. “I expected more strategic divestments and privatisations to have taken place. Instead, there have primarily been more of small minority stake sales, apart from the big-ticket and long pending privatisation of Air India,” he notes. According to Haldea, the focus of the government should only be in education, healthcare and infrastructure where there is much to be done.







LOWER THAN ANTICIPATED NUMBERS

The numbers also reflect this shortfall. Targets for receipts from disinvestment have been revised in most years with the receipts from stake sales often lower than anticipated. The Revised Estimates have been lower than the Budget Estimates in seven of the nine fiscal years since 2014-15 (See Chart At Snail’s Pace). Higher dividends from state run firms have often helped make up for the shortfall in revenue and helped manage the fiscal deficit.

But government officials and experts stress that disinvestment cannot be seen just as a cash cow. Correct processes, due diligence, value maximisation and timing the market are more important than just rushing to meet a specific goal. Vivek Kumar, Economist at QuantEco Research, notes that the Budget targets for disinvestment are also aspirational in the sense that this is what the government would like to do. “But to a large extent, disinvestment is dependent on market conditions. There are also procedural delays or political opposition that led to a shortfall in the target,” he points out. Consequently, several transactions, especially those relating to strategic sales where government equity and management control have to be transferred to the successful bidder often take longer than anticipated. For instance, there’s a whole lot of due diligence required in the privatisation of IDBI Bank. Strategic sales in Shipping Corporation of India and Bharat Earth Movers require demerger and listing of their non-core businesses that consist of land assets.

Interest from investors has also proven to be a stumbling block and getting the right price is a prime consideration. Take for instance the disinvestment of the debt-ridden erstwhile national carrier Air India, which took three attempts over a period of 20 years before it could be sold off to the Tata group. In the case of LIC, the IPO size was cut to 3.5 per cent from the planned 5 per cent because of choppy capital market conditions.

Then there are some that have not taken off. In the case of Container Corporation of India, while the Union Cabinet’s approval has been in place for some time and a land

lease policy was also cleared last year, the exercise seems to be on hold. The strategic disinvestment in Pawan Hans has been scrapped and that of Bharat Petroleum Corp. also seems to be in deep freeze.

THE WAY AHEAD

Meanwhile, the operationalisation of the National Land Monetisation Corporation (NLMC) is underway but could take some time. The NLMC, which was approved by the Union Cabinet in March 2022, aims to monetise land and other non-core assets of central public sector enterprises (CPSE) that are being taken up for strategic sale and closure. The department of public enterprises, which is the nodal ministry in charge of this initiative, has recently selected international property consultants, including SBI Capital Markets and CBRE South Asia, to provide transaction advisory services for monetisation of such assets.

It is also in the process of appointing a CEO and Non-executive Chairperson, as well as professionals to man the agency.

Much remains to be done on the National Monetisation Pipeline as well, which had estimated asset monetisation of Rs 6 lakh crore for FY22-25. The value of assets envisaged to be monetised was about Rs 88,000 crore in FY22 and Rs 1.6 lakh crore in FY23. The actual numbers were Rs 97,000 crore in FY22, and about Rs 1.3 lakh crore in FY23. For FY24, the target is about Rs 1.8 lakh crore and government agencies are working out strategies. The National Highways Authority of India is looking to raise nearly Rs 45,000 crore through asset monetisation.

With general elections approaching, the market is anticipating another slowdown in the disinvestment drive in FY24 though Dipam Secretary Tuhin Kanta Pandey has said that ongoing transactions are under process and the strategic sale in IDBI Bank and Shipping Corporation of India are on track. “It seems that the IDBI Bank stake sale may not take place in FY24. We don’t expect any big-ticket disinvestment right now and it is likely that these may take place in 2025-26,” says Swapnil Shah, Director-Research at StoxBox, an online brand of stockbroking firm BP Wealth. He adds that even larger investors may await clarity on the political front before stepping in to participate in stake sales.

The Union Budget 2023-24 has set a target of Rs 51,000 crore from disinvestment. But, till now, disinvestment receipts have helped raise a tad over Rs 11,500 crore, comprising Rs 5,955.68 crore as dividend from CPSEs and Rs 5,600.93 crore through OFS and other transactions. A minority stake sale in Indian Railway Finance Corp. and the IPO of Indian Renewable Energy Development Agency are expected in the coming months. Dipam has also started work on the disinvestment of Indian Medicines Pharmaceutical Corp.

Though it is early days, finance ministry officials are understood to be reviewing the fiscal math and believe non-tax revenue through higher dividends such as the Rs 87,000 crore-plus payment by the RBI may help the centre meet its targeted fiscal deficit of 5.9 per cent in FY24.

Expediting stake sales in PSEs is likely to remain a key priority for whichever government comes to power next year. Not only will it help bridge the fiscal deficit but it will also lead to better functioning, corporate governance and transparency in these firms. A recent report by Bank of Baroda had said that the potential kitty from disinvestment receipts if the government decides to bring down stake in all PSEs, public sector banks and other financial institutions to 51 per cent would be at about Rs 3.5 lakh crore. Of this, Rs 1.7 lakh crore can come from PSEs and Rs 1.8 lakh crore from financial institutions, it said.

Clearly, disinvestment will remain the buzzword in the years to come although it's unlikely to become less challenging. https://www.businesstoday.in/magazine/deep-dive/story/indias-disinvestment-agenda-why-hasnt-the-policy-taken-off-398928-2023-09-19

5. What Is Delaying Commissiong of India's 96 GW Under-Construction RE Projects? *(saurenergy.com)* 20 Sep 2023

-A latest report by the Central Electricity Authority (CEA) claimed that India has around 96 GW of under-construction renewable projects.

-Several of them are mired in litigation, land acquisition issues and other hurdles which can further delay commissioning of these projects.

A latest report by the Central Electricity Authority (CEA) claimed that renewable energy projects of up to 96 Gigawatt (GW) are under construction in the country. These projects are related to the renewable energy projects tendered through the Solar Energy Corporation of India (SECI (https://www.saurenergy.com/topic/SECI)) and other central public sector enterprises.

CEA said that out of the 96,590 MW of under-construction capacity, the solar projects take the lion's share. There are 58.839 GW (60.92% of the total under construction projects) of solar projects under construction. Similarly, 20.875 GW of wind projects (21.61%) are under construction.

Other renewable segments share a minor stake in the under-construction projects. It includes 16.56 GW of hybrid projects, 8.5 GW of small hydro projects and 2.27 GW of other pending renewable energy projects. However, there is a major concern about the timely completion of these pending projects due to several ground-level challenges to many of these projects. This comes at a time when India announced to ensure 50 percent of the total capacity from non-fossil fuel energy by 2030.

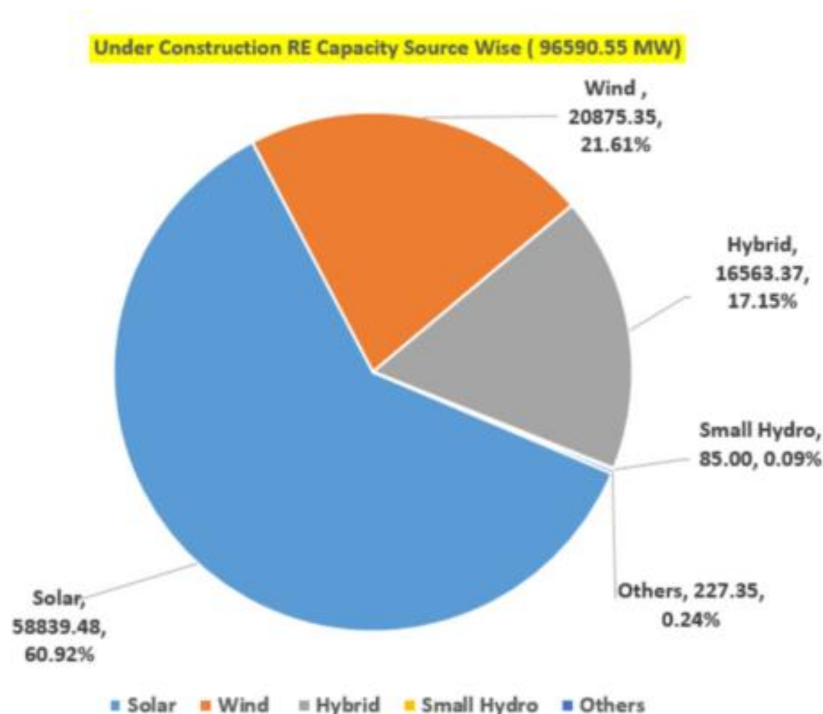
Some of the prominent challenges in some of the projects included delays in land acquisition, involvement in litigations, tariff issues, extension of deadlines due to wildlife conservation issues and others. For example, SECI has around 105 solar projects under construction. However, 13 of them are disputed due to several issues.

Take, for example, the three Inter-State Transmission System (ISTS)-connected solar park projects planned at Sanwara in Jaisalmer district of Rajasthan with a cumulative capacity of 1250 MW. Their commissioning dates were extended due to the issue

related to hazards to the Great Indian Bustards (GIB) and their preparedness for the same. Some of the projects, like the 2 GW solar project at Ettayapuram and Thoothukudi in Tamil Nadu and a 1200 MW solar project at Lalsar and Hapasar in the Bikaner district of Rajasthan are under litigation. Some other projects are sub judice under APTEL or the Central Electricity Regulatory Commission (CERC).

The scenario for wind projects is more problematic. Out of the 47 SECI wind projects, 22 have some disputes. For example– ISTS wind projects at Kutch in Gujarat are under consideration for extension of their project milestones in CERC. Projects at Bellary and Koppal in Karnataka are also under CERC. In many other cases, the Power Purchase Agreements (PPAs) are yet to be signed.

In total, SECI has around 21.629 GW of solar projects and 8.57 GW of wind projects under construction. It is in addition to its 5 GW of hybrid projects. NTPC on the other hand has a total of 1.28 GW of pending renewable projects.



https://www.saurenergy.com/solar-energy-news/what-is-delaying-commissiong-of-indias-96-gw-under-construction-re-projects

6. India's Delayed Census in the Spotlight Again as Women's Reservation Will have to wait *(thewire.in)* 20 Sep 2023

While the Narendra Modi government has made a big show around tabling the women's reservation Bill – with the prime minister even claiming that he may have been ordained by God to conduct this task – the government itself has said that there this no way the reservations mentioned in the Bill can become a reality before the 2029 general elections, at the earliest. Why? Because India hasn't had a Census since 2011.

The women's reservation Bill is supposed to be implemented after the next delimitation exercise – and that exercise is predicated on updated Census numbers. It is believed that the next Census will only be conducted sometime after the 2024 general elections, even though it was scheduled for 2021.

In a letter sent to all states and union territories in June, the office of the Registrar General of India (RGI), responsible for conducting the Census, extended the deadline for freezing administrative boundaries to January 1, 2024.

"With general elections only a few months away, the exercise is not possible in 2023 as the entire government machinery will be busy preparing and holding elections across states and UTs. A census enumeration can only start a few months after administrative boundaries are established. Also, a house-listing enumeration will take place prior to the census to conduct the National Population Register (NPR) exercise," a government official working with the RGI told Economic Times.

The NPR, which the government likely has plans to integrate with the upcoming Census, has been a contentious issue. Critics believe that alongside the Citizenship (Amendment) Act (for which the Union government is yet to frame rules, despite passing the Act four years ago), the NPR may be used to deny Indian Muslims of citizenship.

At first, the government claimed that the Census was delayed because of the COVID-19 pandemic. However, in the years since, all activities have resumed to full capacity and multiple state elections have been held. The Registrar General of India has not announced why it has not conducted the Census despite the pandemic no longer coming in the way of any administrative work.

In the time since the last Census was conducted, India has overtaken China to become the most populous country in the world, according to UN projections. But since the country has not enumerated its own population, government data cannot confirm this.

In February this year, when finance minister Nirmala Sitharaman announced the Budget, observers noticed that the allocation for census-related activities had been cut drastically from the allocation the year before. Budget 2022-23 had put aside Rs 3,676 crore for such activities, while Budget 2023-24 put aside Rs 1,564 crore. However, the revised estimate for 2022-23 was even lower than the allocation for 2023-24: Rs 552.65 crore.

The delayed Census exercise – and the implications this has for India's citizens – has come under scrutiny over the last few years. Renowned economic Pronab Sen, who has been named as head of the government panel set up to review statistical surveys and suggest improvements, says all data generated by the government – on jobs, unemployment, inflation, etc. – is effected by the lack of Census numbers. "The quality of any statistical survey depends on census data," Sen told Reuters.

The delay has also led to speculation about the government's motivations. For instance, an article in Frontline in January noted:

"The delay could be tactical. It is possible that the government wants to wriggle out of enumerating the population sizes of Other Backward Classes (OBCs) and wants to hold back until the general elections are over.

Second, the findings might not confirm the hysteria about growth rates of certain religious groups, which has become a standard campaigning trope for leaders of the Bharatiya Janata Party in every election.

Third, the data on fertility rates of religious groups might also present certain inconvenient truths. Four, the claims of achievements in human development and access to amenities might also be belied by census data. Whatever the reason, the government has offered no credible explanation for delaying Census 2021." https://thewire.in/government/indias-delayed-census-in-the-spotlight-again-as-womens-reservation-will-have-to-wait

7. Highway capex cut as construction lags *(livemint.com)* 19 Sep 2023

As per latest data from the ministry of road transport and highways, just about 3196 km of highways had been built between April and August.

NEW DELHI: Monsoon rains that arrived late but then lingered for an extended period, coupled with land acquisition delays, have slowed down road-building in the country.

Signs of slowdown in road construction became pronounced with the government scaling down capital expenditure for the sector in calendar year 2023. It built just about 23% of highways in the first five months of FY24 against a record target of 13,800 km.

As per latest data from the ministry of road transport and highways (MoRTH), just about 3,196 km of highways had been built between April and August, while capex spent during the period stands at around 43.3% of the record ₹2.58 trillion provided in the budget for this fiscal.

The momentum for capex was maintained in the first quarter of FY24 by when 38% of the amount was spent. Going by this, MoRTH has set targeted spending of 91% of annual capex by December earlier. In its latest report, MoRTH has scaled down capex spend target to 80% by December, 2023.

"The momentum was expected in road construction this year as it falls just ahead of general elections next year. But a mix of climatic conditions and delays in land acquisition for awarded projects may result in slower highway construction this year," said an infrastructure expert from one of the four big consultancy firms on condition of anonymity.

"However, big recovery in construction could be seen in the second half of the year with some government push as monsoon will not be a factor during this period."

In the first five months of the current fiscal construction has limped at around 600 km per month or just about 20 km per day—half the 40 km per day being targeted in FY24.

The provisional highway construction target this year has been set at record 13,800 km. But this pace of construction is unprecedented. Only in the pandemic year FY21 was over 13,000 km of highway constructed at 37 km per day.

The numbers have slipped since, with construction of just over 10,000 km in FY22 and FY23 against a target of over 12,000 km.

Queries sent to MoRTH remained unanswered at press time.

“Highway construction is moving on the slower lane, but a pickup is expected in the second half as projects awarded late last fiscal will come up for construction now. Also, there is 26% growth in construction in the month of August which shows that hereon more roads would be built every month," said Aniket Dani, director-research, Crisil Market Intelligence and Analytics. “But extended monsoon remains a concern if the rains are very heavy disrupting work."

It’s not only the pace of construction that has slowed in the five-month period of the current fiscal. The award of new projects has also slipped to 1,756 km against 2,706 km in the same period of previous year.

The hope now is that the trend of an increase in highway construction in the third and fourth quarters would be maintained this year. But this too is set to fall just before general elections, and awarding can slow down further.

According to Icra Research, the award of road and highway projects is expected to decline by a sharp 25% during FY24 in the run-up to general elections next year which usually sees squeezing of awards in the last quarter. Only around 9,000 km of highways may be awarded in FY24, as against over 12,000 km of highways in FY23. The expected decline is similar to trend seen ahead of the 2019 general elections when awards fell from over 17,000 km in 2018 to just about 5,500 km in 2019.

It is important to ramp up construction pace as a significant award pipeline beckons—indeed, NHAI alone has 43,000 km yet to be awarded, SBICAPS said in a report. The government constructed 10,237 km of highways in the pre-pandemic period of FY20 at 28.04 km per day.

This increased substantially in the first year of the pandemic when the country saw lockdowns, which indirectly helped speed up construction. That year (FY21), a record 13,327 km of highway were built at 36.51 km per day. In FY22, the pace again slowed down to 10,457 km at 28.64 km per day. This remained slow in FY23 as well with just about 10,993 km of construction. This year internal target is to construct 13,800 km of highways but CRISIL expects mote realistic target for this year to be in the range if 11,500-12,000 km. https://www.livemint.com/news/india/monsoon-delays-and-land-acquisition-issues-slow-down-road-construction-in-india-as-government-cuts-capital-expenditure-11695144066096.html

8. A Future-Ready BharatNet Is India's Ticket to an Inclusive Digital Economy *(financialexpress.com)* 20 September 2023

A child in rural Maharashtra eagerly opens her laptop for online lessons with teachers across India, excited to have access to the knowledge of the world at her fingertips. She sees the farmers in her village monitor market prices and crop patterns on their smartphones. She is inspired by local entrepreneurs who launch innovative ventures from their homes, creating hundreds of jobs. She learns of the relief of patients in the village, who can now get regular remote health consultations via video call without having to travel long distances to clinics or hospitals for minor illnesses.

This is the vision of a rural India connected by BharatNet, and it is a stunning one no doubt. As I often say, much like 'roti', 'kapda' and 'makaan', broadband connectivity has become a fundamental necessity in our daily lives. The project's intrinsic value is much larger than its positive impact to GDP- BharatNet is expected to improve the quality of life for over 60% of Indians, who are living in rural areas, through broadband connectivity. It represents India's 'yellow brick road'; the proverbial path to our hopes and dreams for a connected, inclusive, truly digital India.

But I believe the real impact of this nation-transforming agenda will be unlocked when it is made future-ready. For BharatNet to achieve its desired outcome, it should be secure, scalable, resilient, and upgradeable. Embracing the principles of Atmanirbhar (self-reliance), Surakshit (secure), and a 'Digitally empowered Bharat' will be instrumental in shaping this network. This will not only ensure that each corner of rural India is seamlessly woven into the digital fabric of the nation but will help address digital and socio-economic disparities at scale.

Learning from Phases I and II

Phases I and II of BharatNet have already made significant strides in the amount of fibre laid out to date; as of August 2023, over 6.5 lakh km of optical fibre has been laid to connect 2 lakh gram panchayats.

Some commonly cited concerns from the implementation so far are – a lack of financial viability models for implementing agencies to monetize the network (leading to delays in finalizing their contracts), difficulty in maintaining network quality and uptime, and a challenge with endpoint/last mile connectivity. Some of these challenges could be due to a limitation in design – Phase I was designed with a linear architecture so endpoint connectivity to the gram panchayat only had a single fibre path from the nearest exchange. In case of any fault, the lack of a backup path means the gram panchayat would not be connected to the network and achieving uptime of more than 99% would become difficult for the service provider.

Learnings from Phase II

To solve the last mile problem, the government has already announced its decision to allocate INR 1,39,579 crore while expanding BharatNet's reach to all the 6.4 lakh villages.

Laying the foundations for a future-ready, scalable network

As the Department of Telecom finalizes other modifications to Phase III, there are some crucial areas that every player involved (from the private or public sector) should keep in mind in order to realize the vision of BharatNet as a future-ready network.

-Emphasizing Self-Reliance: 'Atmanirbharta' urges us to localize our manufacturing and production processes. Through BharatNet we have an incredible opportunity to enhance our national capabilities by reducing our reliance on imports, enhancing domestic manufacturing, and tailoring the network to our specific needs. BharatNet is expected to accelerate digital inclusion within India, but we should also think about how its positive impact can be multiplied through the process of creating the network itself, whether through nurturing local manufacturing or creating numerous employment opportunities. In addition to these benefits, using locally manufactured network equipment and components perfectly aligns with India's production-linked incentive scheme.

-Think Long-Term: Digital infrastructure is a significant long-term investment with 20-25 years or more lifespan, so it needs a forward-thinking design approach that anticipates technological advancements and evolving user needs. Consider the data surge within our nation; building a resilient and high-quality network capable of accommodating current and future data demands while meeting international and domestic standards of excellence is imperative. There should also be a commitment to eliminating outdated products and standards that have already been discarded by Telecommunication Service Providers (TSPs) in India and other countries. In fact, when the government is funding 100% of the project cost, players involved can be mandated to use products and equipment that adhere to global standards, ensuring efficiency and longevity.
-Ensuring Reliability and Security: Using tested, verified, and certified products reduces the likelihood of technical issues, vulnerabilities, and operational failures. Digital infrastructure's reliability, security, and performance are crucial, necessitating rigorous testing and certification procedures throughout the development and deployment phases is imperative. The implementation of mandatory testing and certification for telecom equipment (MTCTE) is a proactive measure that ensures only tested, verified, and certified products are used in constructing digital infrastructure. The government should promptly implement Phases III and IV of MTCTE and clearly communicate stringent compliance requirements to the industry, outlining the consequences of non-compliance.

Needless to say, there is a lot riding on BharatNet. With Phase III, the ecosystem has another opportunity to solidify the success of this project. Beyond the three recommendations outlined earlier, with adequate focus on ensuring ease of doing business, maximum support for Right of Way approvals, and feasible implementation timelines, all public and private organizations involved should be able to achieve the project's goals. Phase III can then stand as a remarkable testament to what India and our telecom sector can collectively achieve at scale and prove once again that the country is very serious about the vision of an inclusive, digital India. https://www.financialexpress.com/policy/economy-a-future-ready-bharatnet-is-indias-ticket-to-an-inclusive-digital-economy-3248980/

9. IMEC is about infra finance reforms *(thehindubusinessline.com)*

19 September 2023

Building an early consensus on strengthening multilateral development banks (MDB) and launching an alternative model for inter-continental infrastructure creation through the proposed India-Middle East–Europe Corridor (IMEC), are the two major takeaways of the G20 session in New Delhi.

Together, the two initiatives may address partly the reasons behind the worldwide debt crisis and may create a framework to bail out debt-ridden nations. Both will bring major strategic benefits to India vis-à-vis China.

MDB reform is part of the Delhi Declaration. The expert group submitted the first report in June. The final report is expected next month before the presidency goes to Brazil.

It would be the task of Rio de Janeiro to give it shape. However, part of the reforms — like relaxing the capital adequacy norm — may come into effect sooner. It would pave the way to release more funds to the emerging economies. India is keen for an early decision in this regard.

According to available estimates, nearly 60 per cent of low-income countries are either in debt distress or at high risk. A December 2019 World Bank report (‘Global wave of debts’) put it as the “largest, fastest, and most broad-based” debt surge in five decades.

The infrastructure rush in emerging economies over the last two decades, inadequate safe financing options and China’s debt-trap diplomacy are major reasons behind this mess.

Debt-pile

If rightly developed, infrastructure brings tremendous indirect benefits to the economy. However, the long gestation and low direct returns make it unsuitable for regular private finance.

Low-cost MDB finance played a lead role in the reconstruction of the war-ravaged Europe and helped infrastructure building in countries like India in the early phase of development.

As the pace and size of infrastructure building increased, MDB finance fell short of the requirement. The matured debt market helped the developed world to attract investment from pension funds and mitigate the gap.

Such instruments are not adequately available in the developing world. This was the prime reason behind the bad debt surge and liquidity crisis in India, early in the last decade. As a large economy, India is resolving those issues by introducing infrastructure investment trusts (InvIT) and reviving development finance. However, smaller economies (like Bangladesh) with weak financial infrastructure fell for easy Chinese finance.

China offered an unprecedented amount of loans to smaller economies under the transnational Belt and Road Initiative (BRI). Countries borrowed way beyond their means.

The infrastructure thus developed is often inexplicably costly or white elephants — like the railroad to nowhere in Kenya.

When nations became debt-strapped, Beijing demanded a piece of the Maldives or Sri Lanka, mortgaged against loans, for strategic use.

China cannot be blamed alone for the mess. They initiated an unholy competition and, others joined in. The MDB reforms can address part of the problem by channelling fresh finance to the developing world.

However, it is the collaborative finance model of IMEC which may show the world an escape route from China's neo-colonialism and may set up bigger and better trade links than promised by BRI.

India, Iran and Russia have already created the International North-South Transport Corridor (INSTC) through the collaborative model, where participating countries pooled resources.

IMEC is a bigger proposition. Apart from rail and shipping options, IMEC would also offer electricity and energy (gas and hydrogen) pipeline connectivity options.

India, Saudi Arabia, European Union, India, the UAE, France, Germany, Italy and the US have entered an MoU, on the sidelines of the G20 summit, to create the corridor.

The possibility for success is high as IMEC banks on India's thriving bilateral relations with Saudi Arabia, UAE have healthy bilateral relations with Saudi Arabia, UAE and Israel to get the project through. Like its success in bringing Russia and the US to a consensus at G20, India may also help IMEC connect with INSTC. It would help trade in the vast region between the Caspian and the Mediterranean seas.

Most critically, IMEC would open new connectivity options to debt-ridden Africa without much extra cost and ensure better utilisation of assets already built.

No more easy money

Investment in infrastructure is non-negotiable. While that would push the demand for funds upwards, there are definite constraints on the supply side.

The economic problems in China and Europe and the dramatic rise in defence expenditure worldwide as a direct fall out of the geopolitical tension; would limit the fund flow to poorer nations.

Clearly, the days of easy money are over. That calls for both judicious spending and lending. G20 and MDB reforms may solve part of the problem. The rest has to be mitigated through pooled resources. https://www.thehindubusinessline.com/opinion/imec-is-about-infra-finance-reforms/article67323530.ece

10. Gorantla water project moving at a snail's pace *(newindianexpress.com)* 20 September 2023

GUNTUR: Even after six years, there is no respite for the residents of Guntur Municipal Corporation (GMC) limits, as the construction works of the long-pending Gorantla water reservoir are progressing at a snail's pace. Under Atal Mission for Rejuvenation and Urban Transformation (AMRUT), a drinking water project was initiated at Gorantla with an estimated cost of Rs 33 crore in 2017.

The 53 MLD project includes a 10-km pipeline and two reservoirs, one with 600 KL and another with 4,200 KL capacity, aiming to provide drinking water to about 2.34 lakh people in the merged villages under the corporation limits.

In 2010, as many as 10 villages were merged with GMC, including Gorantla, Reddypalem, Pedapalakaluru, Nallapadu, Chowdavaram, Naidupet, Potturu, Ankireddypalem, Etukuru and Budampadu villages. Since then, the civic body has been providing drinking water through water tankers which is far from sufficient. So for the past decade, the people in these villages and in the tail-end parts of the city have been suffering from insufficient drinking water and the situation is even worse during summer.

Though the construction works started in 2019, due to various reasons, including delay in getting required permissions, unavailability of suitable land, and the Covid-19 pandemic, the project got delayed. With GMC commissioner Kirthi Chekuri's initiative, the construction works were restarted. While the construction of one reservoir is completed, slab works of the second reservoir are yet to be finished. However, laying of the pipeline connection from the reservoirs on the hilltop to the underground pipelines is the bottleneck of the project.

Speaking to TNIE, GMC superintendent engineer Bhaskar said that the construction works are at a slow pace due to fund crunch. In the past few months, works worth Rs 5 to Rs 6 crore have been completed, and the contractor did not receive the total sum. So, the works have been halted. He also said that the civic body has served notices to the contractor to restart the works immediately, and if necessary, GMC will take up the remaining construction works to complete the project.

Along with this, the source improvement of the Gorantla project is the 40 MLD capacity filtration plant at the headwater works to be constructed with Rs 125 crore allotted by the Asian Infrastructure Development Bank is yet to be finished. Unless the treatment plant is completed, the Gorantla project can not be utilised at its full capacity. So, the officials are planning to simultaneously complete both projects to provide safe drinking water to the people. https://www.newindianexpress.com/states/andhra-pradesh/2023/sep/20/gorantla-water-project-movingat-a-snails-pace-2616549.html