NEWS ITEMS ON CAG/ AUDIT REPORTS

1. इंफ्रास्ट्रक्चर को सुधारने से गति पकड़ेगी अर्थव्यवस्था

(deshrojana.com) 22 Jan 2024

देश के कई राज्यों पर कर्ज का बोझ बढ़ता जा रहा है। पंजाब, उत्तराखंड, हरियाणा, उत्तर प्रदेश सहित अन्य राज्यों ने अपने यहां कई तरह की लोककल्याणकारी योजनाएं चला रखी हैं। हरियाणा में भी थारी पेंशन थारे पास योजना, पितृत्व लाभ योजना,अटल पेंशन योजना, बुढ़ापा पेंशन, विधवा पेंशन, दिव्यांग पेंशन योजना, श्रमिक पेंशन योजना, मुख्यमंत्री विवाह शगुन योजना, महिला समृद्धि योजना जैसी न जाने कितनी योजनाएं चल रही हैं।

इन योजना के मद में एक अच्छी खासी रकम खर्च करनी पड़ती है। नतीजा यह होता है कि प्रदेश सरकार के राजस्व पर हर साल बोझ बढ़ता जाता है। प्रदेश पर आंतरिक कर्ज और तमाम देनदारियां मिलाकर चार लाख करोड़ से ज्यादा का कर्जा है। मनोहर सरकार ने खुद 2023-24 के बजट में बताया कि प्रदेश पर 2,85,885 करोड़ का कर्ज है। सीएजी की रिपोर्ट में पब्लिक अकाउंड डिपोजिट, स्माल सेविंग्स, मार्च 2022 तक 36,809 करोड़ रुपये बताई गई, जोकि हर साल तीन से चार हजार करोड़ बढ़ जाती है।

पिछले साल 23 फरवरी 2023 को विधानसभा में बजट पेश करते हुए मुख्यमंत्री ने बताया था कि 2023-24 के लिए हरियाणा का सकल राज्य घरेलू उत्पाद (जीएसडीपी) (मौजूदा कीमतों पर) लगभग 11.2 लाख करोड़ रुपये होने का अनुमान है जिसमें 2022-23 की तुलना में 13 प्रतिशत की वृद्धि है। 2023-24 में व्यय (ऋण चुकौतियों को छोड़कर) 1,48,730 करोड़ रुपये होने का अनुमान है जो 2022-23 के संशोधित अनुमानों से 12 प्रतिशत अधिक है। इसके अलावा 2023-24 में राज्य द्वारा 55,220 करोड़ रुपये का कर्ज चुकाया जाएगा।

2023-24 के लिए प्राप्तियां (उधारियों को छोड़कर) 1,15,455 करोड़ रुपये होने का अनुमान है जिसमें 2022-23 के संशोधित अनुमान (99,745 करोड़ रुपये) की तुलना में 15 प्रतिशत की वृद्धि है। 2022-23 में बजट अनुमान (1,12,585 करोड़ रुपये) से प्राप्तियां (उधार को छोड़कर) 11 प्रतिशत कम होने का अनुमान है। यह स्थिति सिर्फ हरियाणा की ही नहीं है, बल्कि देश के ज्यादातर राज्यों की है। केंद्र सरकार की भी यही स्थिति है। असल में इन मामलों में होता यह है कि चुनावों के दौरान या चुनावों से पहले सरकारें लोगों को लुभाने के लिए कई तरह के लोकलुभावन नारे देती हैं।

सरकार बनने के बाद उन योजनाओं को लागू करना उनकी मजबूरी बन जाती है। ऐसी स्थिति में उन्हें विभिन्न वित्तीय संस्थाओं से कर्ज लेना पड़ता है। यह कर्ज तमाम विकास योजनाओं पर कई बार भारी पड़ता है। सरकारों को ढांचागत विकास के लिए पैसे जुटाने के लिए काफी मशक्कत करनी पड़ती है। ऐसी स्थिति में सबसे जरूरी यह है कि सुविधा के नाम पर दी जा रही तमाम सब्सिडी और लाभों में कटौती की जाए और ढांचागत विकास की ओर ध्यान दिया जाए? https://deshrojana.com/editorial/economy-will-gain-momentum-by-improving-infrastructure/

STATES NEWS ITEMS

2. 12 yrs on, three-storey parking project in Palampur yet to see light of day *(tribuneindia.com)* Jan 23, 2024

A three-storey parking project started by the Palampur Municipal Corporation has been lying half complete for the past five years, following a dispute with the contractor. The project was sanctioned 12 years ago by the State Urban Development Department.

The foundation stone of the parking project was laid in 2011 by then Urban Development Minister Mohindera Singh, and later again in year 2017 by former Chief Minister Virbhadra Singh. However, only one concrete slab of the project is visible at present. Official sources told The Tribune that initially, the Palampur Municipal Corporation (earlier a council) had awarded the work for Rs 38.29 lakh to a local contractor. Later, it changed the design.

Dispute with contractor

-Initially, the Palampur civic body had awarded the work for Rs 38.29 lakh to a local contractor. Later, it changed the design.

-To date, the MC has already spent over Rs 1.20 crore on the project as against its original cost of only Rs 38.29 lakh in 2011, but only one slab has been laid

-The contractor says his bills of over Rs 40 lakh were still pending with the Municipal Corporation

To date, the MC has already spent over Rs 1.20 crore on the project as against its original cost of only Rs 38.29 lakh in 2011, but only one slab has been laid whereas three slabs were proposed.

Ashish Sharma, Commissioner, Palampur MC, says tenders were floated again for the construction of the remaining two storeys as the contractor refused to complete the work on the basis of the rates approved in 2011. He adds that the contract was ultimately given to the same contractor, but he refused to resume work till his pending bills are cleared.

Ashwani Chhibar, contractor, said the MC had failed to hand over the site in 2017 when it changed the design. This resulted in the delay in the completion of the project. In 12 years, the cost of construction had escalated manifold. He said his bills of over Rs 40 lakh were still pending with the MC.

The CAG has also raised objection over the delay in the completion of project and directed the MC for recovery of a loss of Rs 18.50 lakh caused to the state exchequer.
https://www.tribuneindia.com/news/himachal/12-yrs-on-three-storey-parking-project-in-palampur-yet-to-see-light-of-day-583826

3. Calcutta High Court Proposes Constitution of Four-Person Committee to Undertake District-Wise Verification of Wage Claims by Workers *(livelaw.in)* 22 Jan 2024

The Calcutta High Court has directed the constitution of a four-member committee comprising of state and central government officials along with officials from the office of the Comptroller and Auditor General and the Accountant General.

A bench of Chief Justice TS Sivagnanam and Justice Hiranmay Bhattacharya passed the order in an ongoing plea to secure unpaid wages to the tune of Rs.276484.47 lakhs along with statutory interest for thousands of MNREGA workers who were left unpaid for a substantial amount of time.

The bench held: The matter has been lingering before this court for a quite long period of time and this court is of the firm view that a genuine verification process has to be done district-wise by a Team of four officers. This Team to be constituted shall do the verification on a district-wise basis and in each district the verification can be done at the sub-divisional levels so that the Team can visit those Sub-Divisions and the matter can be resolved at the earliest.

The MGNERGA scheme earlier known as the National Rural Employment Guarantee Act or NREGA, is an Indian social welfare measure that aims to guarantee the 'right to work' for at least 100 days each year for unskilled workers. This act was passed on 23 August 2005 and was implemented in February 2006.

The matter has been listed on 25th January for the respective authorities to nominate their representative to the committee.

Mr. Bikash Ranjan Bhattacharyya, Sr. Adv., Mr. Purbayan Chakraborty, Adv, Mr. Saptarshi Banerjee, Adv., Mr. Kuntal Banerjee, Adv for the Petitioners.
Case: Paschim Banga Khet Mazdoor Samity & Anr. Vs. The Union of India & Ors
Case No: WPA(P) 237 of 2023
https://www.livelaw.in/high-court/calcutta-high-court/mgnrega-calcutta-high-court-constitutes-four-person-committee-to-undertake-district-wise-verification-of-wage-claims-by-workers-247392

4. MCG flags 'glaring gaps' in drain work, ex-chief engineer on radar *(timesofindia.indiatimes.com)* 23 Jan 2024

Gurgaon: Months after irregularities were found in construction of a road and stormwater drain extending from Inox Mall Chowk to Prakash Puri Chowk, the MCG's vigilance department has sought details of approvals of the project from the former chief engineer and asked him why substandard materials were used. The department has also issued notices to the then assistant and executive engineers.

Questioning the intent of officials, the investigators have also asked the ex-engineers to submit a reply on what was the "compulsion" of constructing a drain when the link to the main stormwater drain is missing.

TOI had on Oct 18 last year reported that an audit of the project had found glaring irregularities in the work. Around 60% of the drain was constructed without following the tender specifications and 500m of the road was laid even though GMDA had not approved connection of this under-construction stormwater line with the master drain.

“We have asked the officials involved in planning and execution of the project, including the former chief engineer who approved the estimate of substandard materials. They have been told to submit a reply in time,” an MCG official who is privy to the matter said.

“The MCG chief engineer has asked who approved the estimate with ‘such below specification’ items. What was the compulsion of constructing a drain when there is no connectivity with the main stormwater sewer? You were the executive engineer in-charge of preparation of an estimate and for grant of technical sanction to this work. So, you are again requested to give your comments on the above points within 10 days of receipt of this letter,” read the notice served by the vigilance department.

According to the audit report, it was found that “lean concrete” — a mix that has less cement than the other contents — was used to build the drain bed. The tender specifications, however, stated that the contractor should have used ready-mix concrete (RMC) M-25 instead of “lean concrete” to provide more strength and durability to the structure. A 14-inch-wide wall was being constructed over the “lean concrete” and 9-inch-wide reinforced concrete cement (RCC) slabs were laid over it. https://timesofindia.indiatimes.com/city/gurgaon/mcg-flags-glaring-gaps-in-drain-work-exchief-engineer-on-radar/articleshow/107065815.cms

5. Decision over 'Masala Bond' taken by KIIFB board comprising Kerala CM, says Thomas Issac to ED *(english.mathrubhumi.com)*

23 Jan 2024

Thiruvananthapuram: Former Finance Minister Dr Thomas Issac, in his reply to the Enforcement Directorate (ED), reasoned that he is not solely responsible for KIIFB's decision on 'Masala Bonds'.

Issac, who refused to comply with the ED's repeated summons, alleged that the director board, chaired by Chief Minister Pinarayi Vijayan, took the decision to issue Masala Bonds. He said that he was merely fulfilling his duties as the finance minister. ED earlier issued a fresh summons to Issac to appear before the central agency for questioning in the case. He refused to appear before them, instead offerred a clarification.

"The Kerala Infrastructure Investment Fund Board (KIIFB) was constituted in the terms of Section 4 of the Kerala Infrastructure Investment Fund Act, 1999. The said board comprises 17 members which includes the Chief Minister of the state as chairperson and the minister for finance as vice chairperson in their official capacity. In other words, my involvement in the affairs of the KIIFB as Vice Chairman was purely in my capacity as the Minister for Finance. Similarly, my role as the Chairperson of the Executive Committee constituted in terms of Section 6B of the Act is also in my official capacity as the Minister for Finance. In other words, my role as the Vice Chairperson of KIIFB and as Chairman of the Executive Committee of KIIFB is purely in my official capacity as the Finance Minister. As evident from the KIIFB Act, the decision of KIIFB are not taken by an individual..." he said in the letter

He noted that as finance minister, he served as ex-officio KIIFB vice-chancellor and chairman (executive council).

"With respect to the subsequent "utilisation of funds received" by KIIFB, I would like to submit that I ceased to be the Minister for Finance of the state of Kerala in May 2021. Consequently, ex-officio posts held by men in the KIIFB and its Executive Committee also had come to an end automatically. I am therefore, unable to provide any details with respect to the subsequent utilisation of funds received by KIIFB as I cannot have any access to the records of KIIFB which would reveal the utilisation of funds received by them..." he said.

The Case:
The Kerala Infrastructure Investment Fund Board (KIIFB) is the primary agency of the state government for financing large and critical infrastructure projects in the state. In 2021, it raised Rs 2,150 crore through its debut masala bond as part of its plan to mobilise Rs 50,000 crore to fund large and critical infrastructure projects in the southern state.

The ED initiated a probe on the 'masala bond' issued by the financing agency. Masala bonds are issued outside India but denominated in Indian Rupees.

The CAG had flagged the KIIFB borrowings and argued that such fundings must be added to the kitty of the permitted borrowing of the state government. https://english.mathrubhumi.com/news/kerala/thomas-issac-says-kiifbi-board-comprising-pinarayi-vijayan-involved-in-masala-bond-issual-1.9263865

6. Masala Bond case: Former Finance Minister Thomas Isaac hoists responsibility of decisions on board chaired by CM *(english.janamtv.com)* Jan 23, 2024

Thiruvananthapuram: Former Finance Minister Dr. Thomas Isaac has responded to the Enforcement Directorate (ED), asserting that he cannot be held solely accountable for the decision on ‘Masala Bonds’ by the Kerala Infrastructure Investment Fund Board (KIIFB). Isaac clarified in his reply that the board of directors, chaired by the Chief Minister, collectively made the decision, and as the finance minister, he served as the vice chairman.

In his defence, Isaac emphasised his ex-officio membership on the 17-member board of directors overseeing KIIFB Masala Bond matters, stating that he holds no special responsibilities and that all decisions are taken collectively by the board.

The ED had issued a notice to Thomas Issac, a prominent leader of the Communist Party of India (Marxist), to provide testimony regarding the utilisation of funds received through the KIIFB Masala Bond. However, the former Finance Minister was not present and submitted his reply later, outlining his perspective on the matter.

KIIFB Masala Bond case

The Kerala Infrastructure Investment Fund Board (KIIFB), established under the Kerala Infrastructure Investment Fund Act, is under scrutiny following the issuance of Masala Bonds on May 17, 2019, through the London Stock Exchange. The bonds, raising Rs 2,150 crores at an interest rate of 7.23 percent, have come into the spotlight after the Comptroller and Auditor General (CAG) identified irregularities, leading to an Enforcement Directorate (ED) investigation.

The controversy has escalated as the ED registered a case, invoking Section 13 of the Foreign Exchange Management Act (FEMA) of 1999. This section enables penalties up to three times the amount involved in the contravention, along with the confiscation of an equivalent value. The potential maximum fine in this case stands at Rs 6,450 crore.

States have no authority to borrow funds internationally. Loans can only be sourced domestically by giving consolidated funds as security. The state should make a law for this. The CAG contends that foreign loans, as facilitated through a corporate entity like KIIFB, contravene existing regulations. https://english.janamtv.com/news/kerala/91123/former-finance-minister-thomas-issac-defends-his-role-in-masala-bond-case-attributes-responsibility-of-decisions-to-board-chaired-by-chief-minister/

SELECTED NEWS ITEMS/ARTICLES FOR READING

7. How the Union Govt Is Slowly but Surely Blurring India's Federal Structure *(thewire.in)* B.K. Chaturvedi | 23 Jan 2024

Responsibilities of the state governments are being slowly overtaken by the Centre, keen as it is to take credit for all welfare programmes. Meanwhile, state coffers are not getting the assistance they need from the Union government.

In a federal structure it is critical that Union government responds to the needs of states and there is complete transparency and accountability in the functioning of both these organs. A well-functioning democracy has these as a very vital element of public governance. However, during the last several decades, there has been an erosion of state governments' authority and constitutional powers. Areas of governance which are essentially local in nature are being encroached upon by the Union as electoral compulsions require greater connect with the people. Foreign policy or a G20 conference or petroleum refining, which are essentially Central subjects, do not give this. Admittedly defence forces and their success do give a shine to the Union. But an effective impact requires meeting common man's daily needs and providing them financial resources for the basic necessities of life. Health (and this includes nutrition) being a state subject, the recent announcement by the Centre to provide free food grains to nearly 80 crore people is clearly part of this trend.

When the Indian Constitution was adopted, it had been decided that powers of the states and the Centre to legislate on various subjects will be delineated. These were mentioned separately in the Central List, State List and the Concurrent List of Schedule VII of the Constitution. The Union government could legislate on items given in the Central List while state could do so for items in the State List. In the Concurrent List both could legislate but the Central legislation had overriding powers. Increasingly, the powers of the Centre have increased, with restriction on the state's power to frame laws. Under the 42nd amendment to the Constitution, five subjects including education and forests were transferred to the Concurrent List from the State List, thereby restricting the power of the state.

The Indian Constitution mentions that the country is a Union of States. However, considering the nature of the country and its multifarious needs, it had given an overriding power under Article 3 of the Constitution to Centre with the approval of Parliament to redraw the boundaries of states. Many new states were reorganised under this provision, the most recent being Chhattisgarh, Uttarakhand and Telangana, redrawing the boundaries of Madhya Pradesh, Uttar Pradesh and Andhra Pradesh. This was done after consultation with state governments and their assemblies had passed a resolution. The new entities created were full-fledged states. They have an assembly and exercise all the powers of any other state government.

The reorganisation of the state of Jammu and Kashmir, however, was done differently. Two union territories were created from the original state: Jammu and Kashmir, and Ladakh. The union territories under our Constitution are administered by the Centre. They may or may not have a state assembly. But these do not exercise the powers under the State List of the Constitution. Effectively, these are fully administered by Union government. There are questions that if the Union government can do this to J&K, what is to prevent it from converting or bifurcating or trifurcating other states and converting these in to union territories? It also seems to be against the law laid down by the Supreme Court in the Kesavananda Bharati case, that the basic structure of the Constitution is sacrosanct and must be preserved. While our political process is sound, the decision on J&K is worrisome for the states.

Under Article 280 of our Constitution, there is a provision for the constitution of a Finance Commission every five years. It assesses the resources of the Centre and different states and makes recommendation on transfer of funds to states based on a normative assessment. Since states have inadequate resources, the Centre makes devolution. This is to meet the requirements of health and education, apart from other financial needs. Similar arrangements exists in other federations like Australia and Canada. They have institutional arrangement for transfer of funds from the Central government based on well-specified norms.

While our Finance Commission transfers continue as contemplated in the Constitution, the Centre is gradually providing large funds outside it and encroaching on the remit of the states. Basic necessities like drinking water, housing, nutrition and poverty alleviation are areas where the states needs supplemental funds from the Centre for their own schemes. But in many areas, the Centre is has its own policies backed by funds. The states have to follow this if they wants Central funds. In some cases, funds are directly being transferred to the beneficiary account. The states, being near the point of delivery of services, are better placed to provide them. They are the ones who look to the last mile connectivity. A result of the Centre entering this field is that criticism because of poor delivery is faced by the states, who provide the services at the ground level. The credit for the scheme invariably goes to the Centre.

Take for instance nutrition. The health of citizens, including children, is the prime responsibility of the state government. Since the Centre does the public procurement of food grains, it can help by providing to the states enough financial resources and food grains to be given to the needy. Since there are a large number of people who may require support, the funds required would be large if free or subsidised food grains are to be given. With the passing of the Right to Food Act, the Union government started this process. Recent reports indicate that about 80 core people will be given free food grains for some more time. But all this is being done under the name of a Central initiative. Any deviation or additional support from the state is frowned upon. The entire approach is that it is a Central initiative and they are its architects. Being a state subject, this should have been left to states with each state adding or varying as it wished.

An important basic necessity is drinking water. This is clearly within the remit of the state. Since there may be support required in some difficult areas, the Centre can pitch in. But one finds announcement from Central leaders that every house will have piped water by a certain date. This function is to be undertaken by local bodies: panchayat, municipal boards or development authorities. It is the states who should lead the campaign and take credit or discredit.

Successive governments in the country have tried to handle the question of poverty. While the Central government makes overarching economic policies, states try to promote investment and work on policies to create employment. Considering the vast rural areas in our country, improving incomes of farmers and agricultural productivity is very critical. Agriculture is a state subject. It is the states who have the responsibility to see that farmers in their area are able to earn enough money with better irrigation facilities and technical advice. It is they who should be providing them money when in distress. Interestingly, the Centre has promised to double their incomes. To better connect with the farmers, money is being transferred directly into the accounts of farmers under a Central scheme. This clearly is an encroachment over states' domain.

In the Canadian and Australian federations, we notice that two approaches have guided the horizontal devolution of funds to different states. First, in the area of health, funds were transferred to different states to keep health facilities comparable amongst the states. Second, in the area of education, there was transfer with a similar objective. But having devolved the funds, it is left to the states to manage their institutions and health or education of their residents. The Government in India is more involved directly in these sectors. Especially in health, there are Central schemes like Ayushman Bharat. More and more coverage is given to a large number of people to avail of its benefits and make use of private hospitals. The impression which it gives is that the Centre is providing funds for it and is directly involved in it. It is the domain of the states but there is a massive involvement of the Centre in health care.

Housing is another area where the Centre has made announcements like 'housing for all' in a certain span of time. Land is clearly a state subject. Housing facilities especially pucca houses are planned by the states. Many of them have schemes for it. But the Centre wants to emphasise that it is cognisant of this basic necessity. There are reports in the media mentioning a timeframe.

While defence and foreign policy, which are the remit of the Centre, are very important areas for a country in the international arena, they are less important for a common man. For him, an increase in income, healthcare facilities, a pucca house for his family and drinking water are very important. He is interested in jobs and some money in his bank to supplement his income. He needs communication in his village. Many of these areas are under the domain of states. Instead of transferring money to the states to let them plan it, the Centre puts in its funds directly.

The Centre is entering these areas by way of its various schemes. The functions which were basically of states have the Centre playing a key role. It can be argued that many Central initiatives are in the interest of the common man. But in a federal structure this is difficult to accept. The Centre and the states must act in accordance with legislative competence and the spirit of federalism. Over the years, with the reduction in the State List and expansion of the Central List, the legislative competence of states has been restricted. The recent creation of two UTs in J&K has given states cause for worry. The deployment of large Central funds in areas which are essentially of states further encroaches on their power. The division of legislative powers is now getting blurred. This is not healthy for a long term growth and stability of our federal structure.
B.K. Chaturvedi is a former Cabinet Secretary and Member of the Planning Commission and 13th Finance Commission.
https://thewire.in/government/how-the-union-govt-is-slowly-but-surely-blurring-indias-federal-structure

8. GST is squeezing states, but RBI's 'solution' of more taxes is unfair *(theprint.in)* 22 January, 2024

The RBI suggested in a December 2023 report that with GST impacting 'vertical fiscal imbalance', states should consider collecting additional taxes under the head 'States' Own Tax Revenue'.

In the run up to independence, the Cabinet Mission Plan of 1946 recommended that the states/provinces of British India have almost complete fiscal sovereignty while significantly restricting the power of the Union. This idea was favoured by Lord Mountbatten and the British colonial administration, and was also acceptable to Muhammad Ali Jinnah as a step short of partition. Alas, as we now know, that did not come to pass for complicated political reasons. Jawaharlal Nehru argued for a stronger Union to help his agenda of fighting poverty with industrialisation while BR Ambedkar wanted a stronger Union to counter the threat of elite capture of local and provincial governments.

Control over the purse, aside from its monopoly on violence, is, after all, the most significant power that a modern government has. Between the local, state, and Union governments, the degree of taxation by each layer generally determines how much of an influence that layer has on our lives. Ideally, the government closest to the people should have the maximum power while the farthest one should have the least. This principle, in fact, was a rallying cry during the American War of Independence.

But India set up a system that skewed heavily towards the Union. States have very little power when it comes to taxation. By design, the Union controls the buoyant sources of taxation—like income tax and corporate tax. And the last vestige of freedom for states to own some indirect tax sources was taken away with the adoption of GST.

The GST sought to unify the entire country into a single market. One may or may not agree with that intent based on whether one sees people and states as a political unit or as a market first. But beyond that, even within the strict utilitarian framework of capitalist logic, the introduction of GST has resulted in a ballooning of deficits.

In the ten-year period before the introduction of GST, from 2005-06 to 2015-16, the combined state budgets of all Indian states had a revenue surplus on average. However, in the period since 2017, when GST was introduced, the average of all state budgets shows a revenue deficit of 0.6 per cent of GDP. One could argue the pandemic had an adverse effect, but even excluding its impact, these post-GST years show an upward trend in revenue deficits. Likewise, and as a natural corollary, they also show an upward trend in fiscal deficit.

AVERAGE REVENUE DEFICIT OF STATES BEFORE & AFTER GST

YEAR	REVENUE DEFICIT OF UNION (% OF GDP)	REVENUE DEFICIT OF STATES (% OF GDP)
2005	2.4	1.2
2006	2.5	0.2
2007	1.9	-0.6
2008	1.1	-0.9
2009	4.5	-0.2
2010	5.2	0.5
2011	3.2	0.0
2012	4.5	-0.3
2013	3.7	-0.2
2014	3.2	0.1
2015	2.9	0.4
2016	2.5	0.0
2017	2.1	0.3
2018	2.6	0.1
2019	2.2	0.1
2020	3.3	0.6
2021	7.5	1.9
2022	4.4	0.4
2023	4.1	0.5

Source: RBI Handbook, State Budgets, Union Budgets ThePrint

States' Own Tax Revenue: a toxic recommendation

The Reserve Bank of India, on its part, looked at the problem and came up with a suggestion that seems tone deaf and technocratic, in the pejorative sense, for those concerned with India's federal structure.

In its December 2023 report, titled 'State Finances: A Study of Budgets 2023-24', the RBI suggests that with the GST having an impact on the "vertical fiscal imbalance", states should consider collecting additional taxes under the head, 'States' Own Tax Revenue'.

The term vertical fiscal imbalance is a fancy way of saying the Union collects more taxes than it requires for its spending obligations, leaving the states with less revenue and more expenditure demands. This means the states need to rely on the Union to transfer some of the taxes collected back to them. The Finance Commission determines the specifics of this devolution, including the quantum and the distribution formula.

The problem, however, is that the Union government sets the terms of the Finance Commission, which decides how much the Union gets to keep for itself and how much it should share with the states.

It's worth noting that in every Finance Commission report in the last 30 years, there is a discussion on how states are fiscally profligate and need to show discipline. This is often used as an excuse for devolving less to the states.

Except, as the table shows, the states, if anything, have managed their finances better than the Union. Therefore, all states must ask why they have to endure lectures on financial discipline from the Union.

Other than GST, another troubling development is that the budgets of relatively prosperous states are impacted badly by the Finance Commission's allocation ratios, owing to population parameters. These are also the states that have accumulated the highest revenue deficit. For instance, Tamil Nadu, Kerala, Punjab, Karnataka, Telangana are among the states that had the highest revenue deficit in 2023. In contrast, states benefiting from the allocation ratio formula, like Uttar Pradesh and Madhya Pradesh, have revenue surpluses for the same year.

It is in this context that the RBI's recommendation is toxic. What it suggests is that states impose additional taxes on their citizens to make their books look better. The report also contends that the ability to collect more taxes at the state level, without dependence on Union transfers, is a sign of improved economic capacity. That may well be true. But is that fair?

Federal or feudal?

Consider two states: Telangana and Madhya Pradesh. The RBI report shows that Telangana met 73.2 per cent of its revenue expenditure from its own state-level taxes. Madhya Pradesh, however, covered 45 per cent of its expenditure with its own revenues. At one level, this disparity is expected in a federal union; some states, by virtue of being more prosperous, transfer some of their wealth to poorer states. Telangana is thus being benevolent. But the problem with the RBI recommendation is that it wants Telangana to increase this 73.2 per cent even higher!

For every additional rupee that Telangana uses from its state-level tax revenue to meet its expenses, it forfeits a rupee of Union transfer that was partly paid for by citizens of Telangana. This results in additional taxation on Telangana citizens for the same rupee they sacrificed out of generosity.

Essentially, the RBI seems to want to punish the citizens of these states by forcing them to pay twice over—once for the state and once for the Union. This, instead of striving for a scenario where a state's own tax revenue forms a more balanced portion of its total revenue expenditure.

Technocratic solutions, couched in the language of efficiency, often obscure the principles of political fairness. What the RBI has done is exactly that. If GST has demonstrably resulted in higher deficits, the reasonable question to ask is, why should we not reconsider it? Should the skew in the direction of the Union government not be questioned?

The Union government arbitrarily gets to rename some of the revenues it collects as "cess" and, therefore, does not have to share it with the states in the devolution process. Why is the Union government not an equal partner in terms of sharing the burden of fiscal discipline? States are expected to follow the orders of the Union government, which clearly feels no obligation to follow its own advice.

All governments are elected by people. The concept of one government 'sitting on top' of another is a feudal idea that belongs in the Middle Ages. Modern governments and institutions, like central banks, would do well to not think like medieval chieftains. https://theprint.in/opinion/gst-is-squeezing-states-but-rbis-solution-of-more-taxes-is-unfair/1932776/

9. Let's expand social security: Provident fund reforms are vital for India *(livemint.com)* 22 Jan 2024

A five-point agenda to fix the country's PF scheme could shift 50 million people from informal to formal work. Let's blend idealism with pragmatism.

The excellent book Making Social Spending Work by Peter Lindert suggests societies need safety nets to catch those in need because of unlucky opening balances, past mistakes or hard times. A policy success of the last decade has been re-imagining India's subsidy spend for 100 million citizens via direct benefit transfers for better social security. However, India's unimaginative trade union movement—it believes job preservation is a form of job creation and chooses the old over the young—has hamstrung work-linked social security programmes with high costs, low competition and excessive deductions. Consequently, only 1 million of our 63 million enterprises and about 7.5% of our 550 million labour force make monthly social security contributions. We propose five design reforms for the Employee Provident Fund Organization (EPFO) around efficiency, choice, competition, effectiveness and sustainability that would shift an estimated 50 million people from informal to formal work. These reforms matter because India's big labour-market problem is not jobs, but wages.

Lindert's research suggests that countries walk different paths in public education, healthcare and pensions and welfare based on their philosophy about inter-generational inequality, fiscal redistribution and returns to human capital. He suggests social security takes off only with fiscal capacity; universal education is often under-resourced, spending is hijacked by the powerful and elderly at the expense of the young and poor, and ageing is the biggest threat to safety nets, employer-based provisions are flawed, and universal provisions provide more equity. India doesn't have the ageing challenge; ours is regulatory cholesterol encouraging informality (a sense of humour about the rule of law). Let's examine five flick-of-the-pen reforms that could accelerate formalization:

Efficiency: The EPFO is the world's costliest government securities mutual fund; it charges employers ten times what an equivalent fund from State Bank of India does, with employers paying total expenses of almost 4% of contributions. Collecting these costs from employers amounts to taxation; globally, pension funds pay these costs. The EPFO should be a non-profit, flow-through entity with benchmarked costs, but it suffers the cost disease identified by Nobel Laureate Bill Baumol on account of a monopoly that holds employers hostage, not clients.

Competition: The EPFO and Employees' State Insurance (ESI) monopoly on work-linked social-security payments has toxic consequences for employees (disrespect and poor service), employers (high costs and corruption demands) and society (making informality more lucrative than formality). A budget speech by former finance minister Arun Jaitley had announced a push for competition. But the proposal was sabotaged by false arguments of private sector exploitation of employees, costs coming down with scale, and the effectiveness of enforcement, administration and fund management housed in the same organization. All three arguments have been disproved by our price and service revolution since 1991 in the sectors of petroleum, telecom, digital payments, airlines and steel. We can think about private sector provisions later, but should immediately allow employee choice (not employer choice) on paying their contributions to either the EPFO or public-sector National Pension Scheme (NPS). This election at the time of joining could be kept open to being changed annually, with easy interoperability between the two, replicating the relationship of our two equity depositories.

Choice: Salaries belongs to employees who should choose what to do with the money. Our prescribed gap between haath waali (net) salary and chitthi waali (gross) salary in a cost-to-company world is unfair; mandatory deductions that are sometimes higher as a proportion of salary for those earning less (possibly to ensure greater savings) are weird. Especially since research suggests the savings rate for individuals with incomes of ₹25,000 per month (or less) is close to zero, implying they barely get past essential spending. Employees should get two choices: Whether to make any employee contribution at all (set at 12% right now), and if so, whether to opt out of the portion that goes to the defined-benefit Employee Pension Scheme (EPS) and contribute the sum fully to the core Employee Provident Fund (EFP) account.

Effectiveness: Employment has shifted from being a lifetime contract to a taxicab relationship; most employees of this generation will have multiple employers, including themselves. The EPFO has a design birth defect that links records to employers rather than employees and their hundreds and thousands of orphaned accounts, with the last estimate putting unclaimed balances at over ₹25,000 crore. Making EPFO contributions to an Aadhaar number will create traceability, portability and access. This change will also enable EPFO products to be offered to self-employed and gig workers.

Sustainability: The EPS diverts 8.33% of a subscriber's salary to a defined-benefit plan. But the EPS has a birth defect; pension contributions or pension benefits can be fixed, but the EPS fixes both. This scheme has become even more unviable with the November 2022 court judgement that bankrupts the scheme, with the court upholding the entitlement of opting for a higher pension by contributing to the EPS on an uncapped salary. The EPS must be removed from the EPFO and merged with some universal and fiscally funded old-age security pension scheme like the Atal Pension Yojana. The EPFO, as a work-linked programme, must remain a defined-contribution plan to avoid the risks of ageing, inadequate investment income and cross-subsidization that it can't handle.

Idealism and pragmatism: In 1947, Constituent Assembly member K.T. Shah wrote a letter to Rajendra Prasad suggesting that "We need a time limit for Directive Principles to be justiciable, lest they become mere pious wishes." However, our distinction between fundamental rights enforceable in court and social objectives embedded in the Directive Principles was not a lack of ambition, but a matter of policy pragmatism.

India's first Prime Minister Jawaharlal Nehru had said, "We cannot have a welfare state unless our national income goes up. India has no existing wealth for you to divide; there is only poverty to divide. Our economic policy must, therefore, aim at plenty."

We must continue our pursuit of the plenty that will pay for fiscally financed safety nets. But let's also undertake five flick-of-the-pen reforms of employer social security programmes that would lead an estimated 50 million existing workers to make their transition from informality to formality. https://www.livemint.com/opinion/online-views/lets-expand-social-security-provident-fund-reforms-are-vital-for-india-11705839754187.html

10. Building on financial inclusion's success *(thehindubusinessline.com)* Updated - January 22, 2024

Jan Dhan Yojana and PM SVANidhi have brought about a paradigm shift. Now, new savings, insurance options can be considered

One of the greatest achievements of the government in the last decade has been the remarkable strides in financial inclusion, primarily through the implementation of the Pradhan Mantri Jan Dhan Yojana (PMJDY). PMJDY, along with Aadhaar and mobile technology (the JAM Trinity), had accelerated the financial inclusion rate from 25 per cent in 2008 to over 80 per cent among adults, in just six years.

This success is further evidenced by the near-universal coverage of banking services across villages, with 99.7 per cent of them having access to banking outlets as of July 2023. The initiative has also seen a significant increase in digital transactions, showcasing the rising adoption of digital finance in the country. Additionally, the scheme has been particularly impactful for women and rural populations, with around 56 per cent of Jan-Dhan account-holders being female, and about 67 per cent of the accounts opened in rural and semi-urban areas. The PMJDY has brought in more than 50 crore beneficiaries into the formal banking system and accumulating total deposit balances of around ₹2,03,505 crore.

The surge in financial inclusion is partly due to the Direct Benefit Transfer system, which provided sufficient incentive for a large section of the population benefiting from various government schemes to open bank accounts. This was necessary in order for them to receive subsidies and other benefits directly credited to their accounts.

Apart from this, there have been efforts to include all strata in getting access to financing from formal channels through provision of priority sector lending, MUDRA

Yojana for MSMEs by providing collateral-free loans, interest subvention scheme for women self-help groups under the Deendayal Antyodaya Yojana - National Rural Livelihood Mission, etc.

This has been further supplemented by the Pradhan Mantri Street Vendor's AtmaNirbhar Nidhi (PM SVANidhi), which has furthered financial inclusion by ensuring availability of credit to the most vulnerable population in the times of crisis.

The relationship between PM SVANidhi and Jan Dhan Yojana and their collective impact on financial inclusion in India represents a significant paradigm shift in the formalisation of credit after the formalisation of banking. A study by Aggarwal et al. (2023) of SBI Research indicates that the majority of PMJDY accounts are primarily used for remittances. PM SVANidhi, on the other hand, has bridged the gap for those previously without access to formal loans. The analysis, covering transactions from FY21 to FY24, showed that PM SVANidhi loans boosted the consumption spending of beneficiaries by an average of ₹1,385 compared to those without the loans.

Digital acceptability

Moreover, the study highlighted a behavioural shift towards the digital acceptability of transactions among Jan Dhan beneficiaries with PM SVANidhi loans. A notable percentage of accounts shifted to a higher bracket of digital transactions, indicating an increased acceptability and adoption of digital financial services. This synergy between PM SVANidhi and Jan Dhan Yojana not only provided a foundational platform for banking but also facilitated the formalisation of credit, thereby enhancing financial inclusion and enabling behavioural changes towards digital financial services.

The multi-dimensional Financial Inclusion (FI) index of RBI, based on a complex aggregation of 97 indicators, evaluating aspects such as availability, accessibility, usage, and efficiency of financial services, along with financial literacy and consumer protection, demonstrates the significant progress made in the last few years. The FI-Index for March 2023 registered a score of 60.1, up from 43.4 in March 2017. This improvement signals broad-based advancements across various facets of financial inclusion, particularly in the sub-indices of usage and quality, indicating a deeper and more effective penetration of financial services among the population. The increase in the FI-Index score is a testament to the effectiveness of various policy initiatives and infrastructural developments aimed at making financial services more accessible and user-friendly to all strata of Indian society.

This is not to say that the impact of the financial inclusion has been uniform across the country. The RBI's recently released Report on Trend and Progress of Banking in India shows that States which had lower level of financial inclusion to begin with such as Assam, Bihar, Chhattisgarh and Jharkhand have shown substantial growth and are converging with States like Maharashtra, Tamil Nadu and Andhra Pradesh which had higher initial financial inclusion. This is because the States with higher financial inclusion to begin with have seen less growth, suggesting they may be experiencing the law of diminishing returns. Further, States like Uttar Pradesh, Madhya Pradesh, Rajasthan, which are positioned towards the middle and lower levels, indicate a need for more efforts to enhance financial inclusion.

The law of diminishing returns implies that as investment in financial inclusion increases, the incremental benefits tend to decrease after a certain point. This is evident in States with higher initial financial inclusion, where additional efforts may yield smaller increases.

Hence, to effectively advance financial inclusion further in India, a comprehensive and multifaceted strategy is essential, addressing the varied needs of its diverse population. Central to this approach is the in-depth understanding of the financial behaviours and necessities of impoverished households, which is pivotal for tailoring financial products and services that cater specifically to their unique circumstances. Beyond mere access to credit, this holistic approach encompasses a range of services like savings, insurance and payment options, all designed to manage the financial lives of marginalised and impoverished communities adeptly.

Most importantly, overcoming geographical and social barriers, such as inaccessibility, illiteracy and other socio-economic constraints, is imperative to achieve this vision. https://www.thehindubusinessline.com/opinion/building-on-financial-inclusions-success/article67766572.ece

11. Water resource inadequacy is a challenge India must take head on *(livemint.com)* 23 Jan 2024

India's mitigation plan for climate change should accord high priority to a basic scarcity that may impede economic growth.

The notion of a 'triple planetary' crisis encompassing climate change, pollution and biodiversity loss has become outdated in the face of complexities captured by the relatively new term 'polycrisis.' This modern challenge involves the intertwining of climate change, environmental disruptions, widening social inequalities, pandemic effects and geopolitical polarization. In the context of India's ambitious pursuit of rapid economic growth amid multiple crises, addressing the climate-development nexus is imperative. The impact of climate change and the depletion of resources holds profound implications for the country's growth trajectory, particularly with a burgeoning population and its escalating demands. Amid these considerations, preserving limited natural resources, especially precious water resources, is a critical priority.

At the recently concluded CoP-28 summit held in Dubai under the aegis of the United Nations Framework Convention on Climate Change, countries agreed on the need to "drive water up the climate agenda," focusing on freshwater ecosystems, urban water resilience and water-resilient food systems.

Highlighting the gravity of the situation, data from the World Bank underscores the fact that water scarcity could depress growth in gross domestic product (GDP) by 6-14% across significant regions in Africa, Asia and the Middle East. This shows the link between climate solutions, development initiatives and water-related challenges. For India, integrating water solutions with its climate and development strategies is of paramount importance in navigating the multifaceted challenges posed by the current polycrisis.

India constitutes 18% of the world's population but has access to only 4% of its water resources. This in itself points to an imbalanced demand-supply structure, which has only grown weaker. In the 1960s, the country's bountiful groundwater resources were critical in driving the 'green revolution,' making it a self-reliant food producer. Today, the country's water table is rapidly falling and its aquifers are drying up faster than the rate at which they are being recharged. Declining water tables inevitably lead to a higher cost of pumping and irrigation water turning salty, resulting in over-abstraction and crop-and-revenue losses for farmers, apart from long-term consequences for water availability. Poor water quality and lack of adequate access to sanitation are also significant causes of disease and poor health.

None of this is news anymore for India. In 2019, the central government, with the support of the World Bank, launched Atal Bhujal Yojana, a central scheme worth ₹6,000 crore that aims to tackle India's growing groundwater crisis. While this is a significant achievement, it still needs to be improved for the country to achieve water security. India can tap the climate-development nexus by conserving and using its water resources smartly, while proactively addressing climate change. With the country's Indo-Gangetic plains getting drier, experts predict that by 2025, north-west India will be subject to severe water stress. Highlighting this crisis's economic ramifications, the World Bank projects that certain regions may witness a staggering 11.5% reduction in GDP growth due to water scarcity by 2050.

Additionally, it needs no further elaboration that water insecurity will inevitably impact food and livelihood security across the country. Beyond agriculture, water scarcity will significantly affect India's quest for sustainable development by having an adverse impact on energy, health and infrastructure. For instance, under the current structure of India's power sector, water is a critical component, and a growing economy and industrial boom will intensify water management challenges. Tried-and-tested development pathways are not only carbon-intensive but also resource-intensive. India is, therefore, confronted with a significant developmental challenge. How do we overcome this to achieve resilient growth and sustainable prosperity?

The policy ecosystem should adapt to accommodate shifts in the Earth's ecosystems. It is time for the country to eliminate perverse subsidies, improve water use efficiency, strengthen water governance and ensure sustainable financing for water infrastructure through appropriate cost recovery. Financing for efficient infrastructure is critical since, currently, large sums are being diverted towards drought relief, both honest and rigged. In 2023 alone, the Centre released ₹7,532 crore to states affected by heavy rains and associated natural disasters.

Better planning and sustainable use of limited water resources should become integral to climate adaptation at all levels. In 2023, Kerala set an example by being the first state in the country to pass a water budget to analyse its distribution and bridge gaps between demand and supply. While localized planning and community solutions are necessary, more is needed to address issues in the long-term; comprehensive planning is vital at the level of the river basin and possible interconnections between different basins. Top-down planning and bottom-up implementation are the way forward. In the context of policy tools, driving water up the priority order of India's National Adaptation Plan is critical.

In the backdrop of extreme weather events, depleting natural resources and drying up of fertile land, India is already in the grip of a severe water crisis that could spiral into a social, political and economic crisis over the years. We are perhaps only a short time away from adding water stress to the list of multiple crises facing the world today. We must rise quickly to meet the challenges that worsening water security throws up. https://www.livemint.com/opinion/online-views/water-resource-inadequacy-is-a-challenge-india-must-take-head-on-11705935700179.html

12. Telangana: Vigilance officials to submit preliminary report on Medigadda barrage to state govt next week *(newindianexpress.com)* 23 Jan 2024

The officials reportedly noticed several lapses right from the design to construction of the Medigadda barrage.

HYDERABAD: The Vigilance and Enforcement officials are likely to submit their preliminary report on the sinking of the piers of Medigadda barrage to the state government next week.

The government ordered a probe into the sinking of Medigadda barrage two weeks ago.

The Vigilance officials carried out searches at 10 irrigation offices located in Hyderabad and other parts of the state. They reportedly conducted a forensic audit of the files at Jala Soudha in Hyderabad. A forensic audit will uncover if there is any criminal negligence or behaviour such as fraud or embezzlement of funds.

The officials reportedly felt that the loss to the exchequer due to the sinking of piers of Medigadda barrage was around Rs 3,200 crore. It remains to be seen if the officials will name any official in their report.

The officials reportedly noticed several lapses right from the design to construction of the Medigadda barrage.

As many as six piers of Medigadda barrage were damaged in October 2023. Later, Congress leader Rahul Gandhi too visited the barrage.

After the formation the Congress government, a team of ministers, led by Irrigation Minister N Uttam Kumar Reddy, visited the barrage and gave a PowerPoint presentation. The irrigation minister also held a meeting with the representatives of contracting agency L&T. In all probability, the state government will ask L&T to repair the damaged pillars at its own cost. https://www.newindianexpress.com/states/telangana/2024/Jan/23/telangana-vigilance-officials-to-submit-preliminary-report-on-medigadda-barrage-to-state-govt-next-week