

# Citizen-Centric reforms in State and center's incentives

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In news

Deadline for States to implement citizen-centric reforms extended till 15th February 2021

## Key highlights

- The Department of Expenditure, Ministry of Finance, has extended the deadline for the States to complete citizen centric reforms in various sectors.
- Now, if the recommendation from the nodal Ministry concerned regarding **implementation of the reform is received by 15th February, 2021, the State will be eligible for reform linked benefits.**
- **The Government of India has identified four critical areas for reforms by the States:**
  1. Implementation of **One Nation One Ration Card System**
  2. Ease of doing business reform
  3. Urban Local body/ utility reforms and
  4. Power Sector reforms.

## Centre's incentives to states

States successfully completing the reforms are eligible to get the following two benefits:

**Such States get the facility of additional borrowing equivalent to 0.25 percent of their Gross States Domestic Product (GSDP) for completing each reform.**

- Under this facility, **additional borrowings of up to Rs.2.14 lakh crore** is available to the States on completion of all the four reforms.
- In view of the resource requirement to meet the challenges posed by the COVID-19 pandemic, the Government of India had decided in May, 2020 to raise the borrowing limit of the States by 2 percent of their GSDP.
- This was aimed at enabling the States to mobilise additional financial resources of up to Rs.4.27 lakh crore.
- Half of this special dispensation was linked to reforms.
- **The purpose was to motivate the States to carry out reforms in various citizen centric areas.**

**The second benefit available to the States completing three out of the four reforms is additional funds assistance under the “Scheme for Financial Assistance to States for Capital Expenditure”.**

- Under the scheme, an amount of **Rs.2,000 crore is earmarked for the States** that will complete at least three out of the four stipulated reforms
- The scheme was announced by the Finance Minister on 12th October, 2020 as part of Atma Nirbhar Bharat Package 2.0.
- It is aimed at boosting capital expenditure by State Governments who are facing difficult financial environment this year due to the shortfall in tax revenue arising from the COVID-19 pandemic.
- A total amount of Rs.12,000 crore has been earmarked by the Government of India under this scheme.
- Capital Expenditure has a higher multiplier effect, enhancing the future productive capacity of the economy, and results in a higher rate of economy growth.

**Current status of the schemes**

The twin incentives have pushed the States to undertake the reforms. So far 9 States have implemented the One Nation One Ration Card System, 4 States have completed the ease of doing business reforms and one State has done the urban local body/utility reforms. Additional borrowing permission of Rs.40,251 crore has been granted to these States.

#### **Significance of the extension**

Extension of the date for completion of reforms is likely to motivate other States also to complete the reform process expeditiously and avail the linked financial benefits.