

Power Sector Reforms Linked Borrowing to States

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In news : Madhya Pradesh has taken the lead in undertaking power sector reforms stipulated by the Department of Expenditure, Ministry of Finance.

What is the reform linked borrowing?

In view of the challenges posed by the COVID 19 pandemic for mobilisation of financial resources, the Government of India has strengthened the hands of the States through multiple measures. These included grant of additional borrowing permission of 2% of the Gross State Domestic Product (GSDP) in the year 2020-21. This has enabled the States to mobilise additional financial resources to fight the pandemic and maintain the standards of service delivery to the public.

However, to ensure long-term debt sustainability and prevent any adverse impact on future, a part of the additional borrowing was linked to the States carrying out reforms in the sectors critical for service delivery to the citizens. These sectors are;

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.

Power Sector reforms:

- Power Sector reforms stipulated by the Ministry of Finance aim at creating a transparent and hassle free provision of power subsidy to farmers and prevent leakages.
- They also aim at improving the health of power

distribution companies by alleviating their liquidity stress in a sustainable manner.

Permission to raise additional financial resources by the states

As per the guidelines issued by the Department of Expenditure, the States undertaking reforms in power sector are granted permission to raise additional financial resources of up to 0.25 percent of the GSDP. This is linked to a set of 3 reforms in the sector:

- 0.05 % of GSDP for reduction in Aggregate Technical & Commercial losses in the State as per prescribed targets.
- Another, 0.05 % of GSDP is allowed for reduction in the gap between Average Cost of Supply and Average Revenue Realisation (ACS-ARR gap) in the State as per prescribed targets.
- Finally, 0.15 % of GSDP of the State on introduction of Direct Benefit Transfer (DBT) to all farmers in the State in lieu of free/ subsidised electricity.
 - For this, the State government has to frame a Scheme for transfer of cash and implement the Scheme in at least one district by 31st December, 2020.

Initiatives of Madhya Pradesh

As part of the reforms, the State has started Direct Benefit Transfer (DBT) of electricity subsidy to farmers in one district of the state with effect from December, 2020. Thus, the State has successfully implemented one out of the three stipulated reforms in the power sector.

What is the impact?

Successful implementation of the reform has made the State eligible to mobilise additional financial resources equivalent

to 0.15 percent of its Gross State Domestic Product (GSDP). Accordingly, the Department of Expenditure has granted permission to the State to mobilise additional financial resources of Rs. 1,423 crore through Open Market Borrowings. This has provided the much needed additional financial resources to the State to fight COVID-19 pandemic.

Current status of the scheme

Till now, 14 States have carried out at least one of the four stipulated reforms and have been granted reform linked borrowing permissions. Out of these, 11 States have implemented the One Nation One Ration Card System, 8 States have done ease of doing business reforms, 4 States have done local body reforms and Madhya Pradesh has implemented power sector reforms. Total reform linked additional borrowing permission issued so far to the States stands at Rs. 62,762 crore.