

Reform Linked Borrowing Permissions for States

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In news

Ministry of Finance grants permission to five states to borrow more funds for the ease of doing business reforms

Reform Linked Borrowing Permissions for States

Linking the grant of additional borrowing permissions by the Government of India to the States to reforms in various citizen centric sectors has motivated the States to undertake reforms to promote Ease of Doing Business.

Which are the five states that have been given permission for additional borrowing?

- **5 States have so far completed the stipulated reforms in the Ease of Doing Business.**
- These States have been granted permission to mobilize additional financial resources to the tune of Rs 16,728 crore through open market borrowings.
- **These States are Andhra Pradesh, Karnataka, Madhya Pradesh, Tamil Nadu and Telangana.**

Category of reforms

The Ease of Doing Business is an important indicator of the investment friendly business climate in the country. Improvements in the ease of doing business will enable faster future growth of the state economy. Therefore, the government of India had in May 2020, decided to link grant of additional borrowing permissions to States who undertake the reforms to facilitate ease of doing business. **The reforms stipulated in this category** are:

1. Completion of first assessment of '**District Level Business Reform Action Plan**'
2. **Elimination of the requirements of renewal of registration certificates/approvals/licences** obtained by businesses for various activities at least under the following Acts: –

- The Shops & Establishment Act
- The Contracts Labour (Regulation and Abolition) Act, 1970
- The Factories Act, 1948
- The Legal Metrology Act
- The Inter State Migrant Workmen (RE&CS) Act, 1979
- Drug Manufacturing/ Selling/ Storage License
- Trade License issued by the Municipal Corporations.

3. Implementation of computerized central random inspection system under the Acts wherein allocation of inspectors is done centrally, the same inspector is not assigned to the same unit in subsequent years, prior inspection notice is provided to the business owner, and inspection report is uploaded within 48 hours of the inspection. This includes the inspection under:

- The Equal Remuneration Act, 1976
- The Minimum Wages Act, 1948
- The Shops and Establishments Act
- The Payment of Bonus Act, 1965
- The Payment of Wages Act, 1936
- The Payment of Gratuity Act, 1972
- The Contract Labour (Regulation and Abolition) Act, 1970
- The Factories Act, 1948
- The Boilers Act, 1923
- The Water (Prevention and Control of Pollution) Act, 1974
- The Air (Prevention and Control of Pollution) Act,

1981

- The Legal Metrology Act, 2009 and Rules

The four citizen-centric areas for reforms

In view of the resource requirement to meet the challenges posed by the COVID-19 pandemic, the Government of India had on 17th May, 2020 **enhanced the borrowing limit of the States by 2 percent of their GSDP. Half of this special dispensation was linked to undertaking citizen centric reforms by the States.identified were**

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.

What is the current status?

So far 10 States have implemented the One Nation One Ration Card System, 5 States have done Ease of Doing Business reforms, and 2 States have done local body reforms.

Scheme for Financial Assistance to States for Capital Expenditure

- Besides additional borrowing permissions, **the States completing three out of the four reforms are entitled to get additional financial 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 this purpose.

Extended deadline for states

To facilitate more States to undertake the reforms and avail additional borrowings, The Department of Expenditure, Ministry of Finance had recently 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.