



# Reform Linked Borrowing

## Why in News

Indian **states were able to borrow an extra Rs. 1.06 lakh crore** in 2020-21 (FY21) due to the **Reform Linked Borrowing window**.

- This was announced to provide an additional leeway to states in order to cope with the adverse effects of [Covid-19 pandemic](#) on the economy.

## Note

- **Chapter II of Part XII of the Constitution of India** deals with borrowing by the Central Government and State Governments.
- It comprises **two provisions - Article 292** which covers **borrowing by the Central Government** and **Article 293**, which covers **borrowing by State Governments**.
- **Article 293 (3) requires State Governments** that are indebted to the Central Government to **seek the consent of the Central Government** before raising further borrowings.

## Key Points

- **About:**
  - This was a nudge, **incentivising the States to adopt progressive policies to avail additional funds**.
  - In **October 2020**, the **Central government had linked permission for additional borrowing of 1% of their [GSDP](#)** (Gross State Domestic Product) to **implementation of four critical reforms**, which are:
    - Implementation of One Nation One Ration Card System,
    - Ease of doing business reform,
    - Urban Local body/ utility reforms and
    - Power Sector reforms.
  - Under this reforms-linked borrowing window, **states were to get access to funds of up to Rs 2.14 lakh crore** on completion of all the **four reforms**.
  - For states completing **three of the four reforms**, the Centre would provide **additional funds assistance of Rs. 2,000 crore** for [capital expenditure](#).
  - For FY 2021-22, the **net borrowing ceiling for states has been fixed at 4%** of the projected GSDP (about Rs 8.46 lakh crore), based on recommendations of the [Fifteenth Finance Commission](#).
- **One Nation One Ration Card System (ONORC) Reforms:**
  - This was aimed to ensure that the beneficiaries under the [National Food Security Act \(NFSA\)](#) and other welfare schemes, especially the migrant workers and their families, get ration from any [Fair Price Shop \(FPS\)](#) across the country.

- Other aims of the intended reform were to better target beneficiaries, elimination of bogus/ duplicate/ ineligible ration cards and thus enhance welfare and reduce leakage.
- For this, the reform conditions stipulated **Aadhar Seeding of all Ration Cards**, biometric authentication of beneficiaries and automation of all the FPS in the State.

▪ **‘Ease of Doing Business’ Reforms:**

- It is to facilitate a better environment and seamless process for entrepreneurs and companies to operate.
- The reforms stipulated in this category are:
  - Completion of first assessment of **‘District Level Business Reform Action Plan’**.
  - **Elimination of the requirements of renewal of Registration certificates/approvals/licences** obtained by businesses under various Acts.
  - Implementation of **a computerized central random inspection system** under the Acts.

▪ **Urban Local Body/ Utility Reforms:**

- These reforms are **aimed at financial strengthening of ULBs (Urban Local Bodies)** in the States and to enable them to provide better public health and sanitation services to citizens.
- It **required states to notify floor rates of property tax and of water and sewerage charges**. This was in consonance with stamp duty guideline values for property transactions and current costs in urban areas.

▪ **Power Sector Reforms:**

- There are three parameters a state must meet under the power sector reforms - **reduction in Aggregate Technical & Commercial (AT&C) losses**, targeted **reduction in Average Cost of Supply and Average Revenue Realisation (ACS-ARR) gap**, and **direct benefit transfer (DBT) of electricity subsidy to farmers**.

**[Source: TH](#)**

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