and wage increase for MGNREGA workers and support for building and construction workers, collateral free loans to self-help groups, reduction in EPF contributions, employment provision for migrant workers (Pradhan Mantri Garib Kalyan Rojgar Abhiyaan).

(ii) Relief measures for MSMEs such as collateral-free lending program with 100 percent credit guarantee, subordinate debt for stressed MSMEs with partial guarantee, partial credit guarantee scheme for public sector banks on borrowings of non-bank financial companies, housing finance companies (HFCs), and micro finance institutions, Fund of Funds for equity infusion in MSMEs, additional support to farmers *via* concessional credit, as well as a credit facility for street vendors (PM SVANidhi), amongst others.

(iii) Regulatory and compliance measures: postponing tax-filing and other compliance deadlines, reduction in penalty interest rate for overdue GST filings, change in government procurement rules, faster clearing of MSME dues, IBC related relaxations for MSMEs, amongst others.

(iv) Structural reforms announced as part of the Atmanirbhar Package which, *inter alia,* include deregulation of the agricultural sector, change in definition of MSMEs, new PSU policy, commercialization of coal mining, higher FDI limits in defence and space sector, development of Industrial Land/ Land Bank and Industrial Information System, revamp of Viability Gap Funding scheme for social infrastructure, new power tariff policy and incentivizing States to undertake sector reforms.

Borrowing by States to meet GST shortfall

220. SHRI SANJAY RAUT: Will the Minister of FINANCE be pleased to state:

(a) whether the Union Government has proposed two options to States to meet the ₹2.3 lakh crore GST shortfall either by borrowing in 2020-21 only to meet the shortfall related to GST implementation (₹ 97,000 crore), with the rest payable after 2022 from surplus cess collections, or borrow in 2020-21 to meet entire shortfall;

(b) if so, the details thereof;

(c) whether a number of State Governments including Maharashtra State have objected to the proposed two options and told that this will be adversely impact their States development funds if they have to borrow; and

(d) if so, Government's response thereof?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI ANURAG SINGH THAKUR): (a) and (b) As per provision in Section 7, 8 & 10 of the GST (Compensation to States) Act, 2017, the issue of pending GST compensation and future course of action to meet the GST compensation shortfall has been discussed in 41st GST Council meeting on 27.08.2020 wherein States were given two options to meet their GST compensation shortfall for current FY from market borrowing. The details of the two options were communicated by the Department of Expenditure as under:-

Option 1

I. The shortfall arising out of GST implementation (calculated at ₹ 97,000 crores approximately) will be borrowed by States through issue of debt under a Special Window coordinated by the Ministry of Finance.

II. It will be the endeavour to ensure steady flow of resources similar to the flow under GST compensation on a bi-monthly basis.

III. The GOI will endeavour to keep the cost at or close to the G-sec yield, and in the event of the cost being higher, will bear the margin between G-secs and average of State Development Loan yields up to 0.5% (50 basis points) through a subsidy.

IV. A special borrowing permission will be given by the GOI under Article 293 for this anount, over and above any other borrowing ceilings eligible under any other normal or special permission notified by Department of Expenditure.

V. in respect of Union Territories (including National Capital Territory), suitable arrangements to ensure flow of resources under the Special Window to them would be made by the Government of India

VI. The interest on the borrowing under the Special Window will be paid from the Cess as and when it arises until the end of the transition period. After the transition period, principal and interest will also be paid from proceeds of the Cess, by extending the Cess beyond the transition period for such period as may be required. The State will not be required to service the debt or to repay it from any other source.

VII. States will also be given permission to borrow the final instalment of 0.5% (originally intended as a bonus for completing at least three of the four specified reforms) allowed in para 4 of the Department of Expenditure's OM F.No. 40(06)/PF-S/2017-18 dated 17-5-20 (hereinafter referred to as DOE OM) even without meeting the pre-conditions. This will enable borrowing of approximately ₹ 1 lakh crores in aggregate.

VIII. The first instalment of 0.5% unconditional borrowing permission granted *vide* para 4 of the DOE: OM remains unaffected. The reform-linked tranches specified in paras 5 to 8 of that OM also remain unaffected.

IX. In modification of para 9 of the DOE OM, States will be able to carry forward unutilised extra borrowing ceilings given under that OM to the next financial year; the instalments under para 4 (0.5 unconditional + another 0.5 as per para VII above) can be carried forward unconditionally; the reform-linked portions can be carried forward if the States meet the reform criteria within the dates already prescribed for this year.

X. The borrowing under the Special Window will not be treated as debt of the State for any norms which may be prescribed by the Finance Commission etc.

XI. The Compensation Cess will be continued after the transition period until such time as all arrears of compensation for the transition period are paid to the States. The first charge on the Compensation Cess each year would be the interest payable; the second charge would be the principal repayment. The remaining arrears of compensation accrued during the transition period would be paid after the interest and principal are paid.

Option 2

I. The entire shortfall of ₹ 235,000 crores (including the Covid-impact portion) may be borrowed by States through issue of market debt. The GOI will issue an OM committing to repayment of principal on such debt from Cess proceeds as per para IV below.

II. Appropriate enhanced special borrowing permission will be given by the GOI under Article 293 based on the following methodology, in modification of scheme notified earlier under the DOE OM:

(a) Each state's borrowing limits for the year will be based on the following calculation:

Basic eligibility (3 % of GSDP) + Amount allowed for shortfall as per Item I above of Option 2+ up to 1% of GSDP (reform-linked as per paras 5 to 8 of DOE OM)

or

Basic eligibility (3% of GSDP) + 1% of GSDP + up to 1% of GSDP (reform-linked as per paras 5 to 8 of DOE OM) whichever is higher.

(b) The additional unconditional borrowing limit of 0.5% and the final (bonus) tranche of 0.5% under para 4 of the DOE OM will not be separately available, being subsumed under the calculation above.

(c) States will remain eligible for the reform-linked tranches of borrowing under paras 5 to 8 of the DOE OM this year but shall not be eligible to carry them forward. The maximum amount which can be availed under that OM shall, stand reduced to 1 % of GSDP instead of 2% of GSDP.

III. The interest shall be paid by the States from their resources.

IV. The principal on the amount under Item I above will, after the transition period, be paid from proceeds of the Cess. The States will not be required to repay the principal from any other source.

V. To the extent of the shortfall arising due to implementation of GST (i.e. ₹ 97,000 crores approximately in aggregate) the borrowing will not be treated as debt of the Statie for any norms which may be prescribed by the Finance Commission etc.

VI. The Compensation Cess will be continued after the transition period until such time as all arrears of compensation for the transition period are paid to the states. The first charge on the future Cess would be the principal repayment. The remaining arrears of compensation accrued during the transition period would be paid after the principal is paid.

It was also decided that States will give their preference and views thereon. Thereafter on finalisation of scheme, the states can chose either Option 1 or Option 2 and accordingly their compensation, borrowing, repayment etc will be dealt as per their individual choice.

(c) and (d) Some States have objected to the proposed two options. They are being requested to exercise one of the two options.