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Centre sets conditions for even untied capex loans to states

The scheme for providing financial assistance to the states for capital expenditure, introduced in FY21, v 25 in the interm Budget with an outlay of Rs 1.3 trillion as against the revised estimate of Rs 1.05 trillion for FY24.

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Funds provided under the 50-year interest loan scheme would be over and above the normal borrowing ceiling allowed to the states for FY25, during which the loan amount has to be spent.

To receive interest-free capital expenditure loans from the Centre under the “untied” category, states will have to comply with the branding norms for centrally sponsored schemes (CSSs) and deposit interest accrued on the unutilised central-schemes funds lying with the state-level single nodal agencies (SNA) by March 31.

The scheme for providing financial assistance to the states for capital expenditure, introduced in FY21, was extended to FY25 in the interm Budget with an outlay of Rs 1.3 trillion as against the revised estimate of Rs 1.05 trillion for FY24.

Of the Rs 1.3 trillion for FY25, Rs 55,000 crore in untied capex loans would be rolled out from April 1, 2024. The reform/project linked Rs 75,000 crore would be rolled out after the new government is formed in May-June.

With many states tweaking the names of CCSs, the Centre has made it mandatory that to avail of the the capex loan, they would have to retain the official name of all schemes and any guidelines/instructions issued in this regard.

Furtther, the SNA model requires states to notify an SNA for each CSS to receive funds from both the Centre and from state budgets. The Centre has now mandated that states have to deposit the central share of interest earned in SNA accounts till March 31, 2024, in the Consolidated Fund of India and submit a certificate in this regard to benefit from the loan facility.

Funds provided under the 50-year interest loan scheme would be over and above the normal borrowing ceiling allowed to the states for FY25, during which the loan amount has to be spent.

The untied loans would be released to states in two instalments with the first instalment of 66% of the approved amount on meeting the mandatory conditions and the second instalment of 34% will be released on utilization of at least 75% of the amount released in the first installment.

Separately, the government would also release Rs 5,000 crore tied loans approved in FY24 under the component for housing for police personnel or as part of police stations in urban areas, construction of Unity Malls and libraries/digital infrastructure.

It has also earmarked another Rs 5,000 crore for the development of iconic tourist centres to a global scale. Guidelines for this would be unveiled after the new government assumes power along with other reforms to be mandated under the Rs 75,000 crore tied component to make India a developed nation by 2047.

In the interim Budget presented on February 1, the Centre cut the outlay for the capex facility by 19% to Rs 1.05 trillion from the budget estimate of Rs 1.3 trillion for FY24 as some states failed to meet conditionalities. Andhra Pradesh, Kerala and Punjab did not receive any funds in FY24 from the liberal loan facility this year as these states did not fulfil the conditionalities or failed to fully spend the amounts allocated to them in the previous fiscal under the scheme.

According to the norms for the scheme in FY24, the first instalment of 66.6% was to be released to each state government on meeting three fiduciary conditions: adhering to branding norms for central schemes, sharing of scheme-wise spending data, and proof of deposit of the Centre's share of the interest earned in SNA account for each scheme.

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