With migrants headed home, 65% hike in MNREGA funds

SUNNY VERMA & AANCHAL MAGAZINE
NEW DELHI, MAY 17

COVID ECONOMIC PACKAGE: DAY 5

UNION FINANCE Minister Nirmala Sitharaman Sunday announced a sharp 65 per cent hike over the Budget outlay for the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) in the fifth and final tranche of Atmanirbhar Bharat package.

The sharp hike is indicative of the likely surge in demand for work in rural areas as migrant workers, who are travelling to their home towns amid the coronavirus lockdown, are unlikely to return to the cities soon for work.

Alongside this, states have been allowed to raise their borrowing limit to 5 per cent of the Gross State Domestic Product (GSDP) from 3 per cent, translating into additional borrowing headroom of Rs 4.28 lakh crore.

While states had asked for greater fiscal headroom to tide over the crisis, the Centre has attached conditions for the increased borrowing space, which are emerging as dampeners.

Late Sunday, Kerala Finance Minister Thomas Isaac welcomed the expansion of fiscal deficit, but protested against making additional loans conditional. "Most of these conditions can easily be implemented through dialogue. Centre has set a bad precedent. In future, severe conditions may be imposed on even normal loans," he tweeted.

Referring to the Terms of Reference of the Finance Commission, Isaac posted:

CONTINUED ON PAGE 2

MNREGA funds

"Central govt had included in the ToR of 15th FC imposition of conditions on the market borrowing of state govts. But FC in its wisdom refused to bite the bait. Now Centre has used the pandemic crisis to introduce conditions on states market borrowing. A bad precedent."

Bihar Deputy Chief Minister and Finance Minister Sushil Kumar Modi said the state would be able to borrow an additional Rs 3,230 crore unconditionally, and another Rs 9,692 crore by fulfilling some conditions. The Centre has permitted only 0.5 per cent of GSDP as an unconditional increase. For the rest, 1 per cent will be in four tranches of 0.25 per cent, with each tranche linked to expenditure on 'One Nation One Ration', urban local body revenues, power distribution and ease of doing business reforms. The last 0.5 per cent is to be permitted if at least three of four milestones are reached. Indications are that this relaxation in borrowing limits would need an amendment to the Fiscal Responsibility and Budget Management Act.

For MGNREGS, the government announced an additional allocation of Rs 40,000 crore. In the 2020-21 Budget estimate, the government had reduced the allocation under the scheme to Rs 61,500 crore, compared to the revised estimate of Rs 71,002 crore in 2019-20.

Demand for work under MNREGS, launched in 2006 from 200 districts, had surged to a nine-year high in 2019-20 as 5.47 crore households availed of the scheme, the highest since 2010-11, when the number was 5.5 crore. It was 5.27 crore in 2018-19. "Given that the rate for a day under MGNREGA was increased from Rs 182 to Rs 202 in an earlier announcement by the government, this would translate to about 28 per cent increase in person-day that can be supported this year. The FM had earlier mentioned that 40 per cent to 50 per cent more people have enrolled in MGNREGA this May compared to last year. If that trend continues, which seems likely as more and more migrant workers...return to the villages, we will probably need even more funds for this," said Partha Chatterjee, Dean-International Partnerships, Professor and Head of Economics Department at Shiv Nadar University.

For the revised borrowing limit for states, the Union Finance Minister said that states have so far borrowed only 14 per cent of the authorised limit.

M Govinda Rao, Chief Economic Advisor at Brickwork Ratings and who has also been a member of 14th Finance Commission, said the utilisation of additional 2 per cent borrowing space by states would be lower. "...they (states) are likely to take up reform measures that they believe are politically feasible. However, many of them may settle on borrowing less to avoid undertaking politically difficult reforms," Rao said.

A likely increase in borrowing cost due to the emerging gap between total public sector borrowing requirement (PSBR) and available resources will also lead to states not opting for the increased borrowing space, said D K Srivastava, Chief Policy Advisor, EY India.

"With the enhanced borrowing programme of the Centre and states, and the borrowing requirement of public sector enterprises, we consider the total PSBR to be about 14% of GDP in FY21 as against available resources of about 9.5% of GDP. States have already experienced a sharp increase in their cost of borrowing as the yield of 10-year state government bonds auctioned on April 7 rose by nearly 100 basis points as compared to that which prevailed a month before," he said.