



CURRENT AFFAIRS



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SPECIAL ASSISTANCE TO STATES FOR CAPITAL INVESTMENT 2023-24 SCHEME

This article covers "Daily Current Affairs" and the topic details "Special Assistance to States for Capital Investment 2023-24 Scheme". The topic "Special Assistance to States for Capital Investment 2023-24 Scheme" has relevance in the Economy section of the UPSC CSE exam.

Relevance:

For Prelims:

What is Special Assistance to States for Capital Investment 2023-24 Scheme?

For Mains:

GS 3: Economy

Significance of the Special Assistance to States for Capital Investment 2023-24 Scheme?

Capital Expenditure in India?

Why in the news?

The Finance Ministry Approved investments worth Rs 56,415 in 16 states as part of the 'Special Assistance to States for Capital Investment 2023-24' scheme

What is Special Assistance to States for Capital Investment 2023-24 Scheme?

The Special Assistance to States for Capital Investment 2023-24 Scheme is a central government initiative designed to provide financial support to states in India for their capital investment requirements. Under this scheme, loans are granted to states to facilitate their investments in various development projects and infrastructure.

Objective:

- Stimulate demand, create jobs, and have a multiplier effect on the economy.
- Accelerate projects in key sectors such as Jal Jeevan Mission and Pradhan Mantri Gram Sadak Yojana.
- Encourage reforms in urban planning and urban finance for improved quality of life and governance in cities.

Key features of the scheme include:

- **Financial Support:** The scheme offers financial assistance in the form of loans to states. These loans are interest-free and have a long tenure of 50 years.
- **Allocation of Funds:** A total allocation of Rs. 56,415 crore has been approved for 16 states (Arunachal Pradesh, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Himachal Pradesh, Karnataka, Madhya Pradesh, Mizoram, Odisha, Rajasthan, Sikkim, Tamil Nadu, Telangana, and West Bengal) in the financial year 2023-24. The allocation is distributed among the states based on their respective shares of central taxes and duties.

- **Allocation Methodology:** Part-I allocation of Rs. 1 lakh crore based on states' share of central taxes and duties as per the 15th Finance Commission's award.
- **Sector-Specific Projects:** Parts II to VIII focus on specific sectors and reforms.
 1. Part-II: Incentives for scrapping old vehicles and setting up automated vehicle testing facilities.
 2. Part-III and IV: Incentives for urban planning and urban finance reforms.
 3. Part-V: Funds for increasing housing stock for police personnel and families within urban police stations.
 4. Part-VI: Support for national integration, Make in India, and One District One Product through Unity Mall projects.
 5. Part-VII: Financial assistance for establishing libraries with digital infrastructure at the Panchayat and Ward level.
 6. Part-VIII: Sector-specific projects for capital investment.

Significance of the Special Assistance to States for Capital Investment 2023-24 Scheme:

- **Economic Growth:** The scheme holds significant importance in stimulating economic growth. By providing financial assistance to states for capital investment, it helps in generating economic activity and creating employment opportunities. Increased capital expenditure leads to the development of infrastructure, industries, and businesses, which, in turn, contributes to overall economic progress.
- **Infrastructure Development:** The scheme plays a crucial role in facilitating infrastructure development across states. With dedicated funding, it supports the construction, maintenance, and improvement of various physical assets such as roads, bridges, schools, hospitals, and other essential infrastructure. Improved infrastructure enhances connectivity, facilitates trade, attracts investments, and improves the overall quality of life for citizens.
- **Regional Development:** One of the key objectives of the scheme is to address regional disparities and promote balanced development. By allocating funds based on states' share of central taxes and duties, it ensures that financial assistance is distributed proportionately, considering the different needs and priorities of each state. This approach helps in reducing regional imbalances and promoting inclusive growth.
- **Encouraging Reforms:** The scheme serves as a catalyst for reforms in key sectors. Parts II to VIII of the scheme focus on sector-specific projects and reforms such as urban planning, urban finance, scrapping of old vehicles, housing for police personnel, cultural diversity promotion, and establishment of libraries with digital infrastructure. By providing incentives and financial assistance tied to these reforms, the scheme encourages states to undertake necessary policy changes, leading to improved governance and service delivery.
- **Strengthening Governance:** Through its focus on reforms and capacity-building, the scheme contributes to strengthening governance at the state level. By promoting efficient urban planning, financial management, and the use of technology in public services, it enhances the delivery of essential services to citizens. The establishment of libraries with digital infrastructure also supports educational development and promotes access to information, particularly for children and adolescents.
- **Long-term Investment:** The scheme's provision of a 50-year interest-free loan to states for capital investment reflects a long-term perspective. This long-term financial support enables states to undertake projects with larger gestation periods and ensures sustainable development. It encourages states to plan and execute projects that have lasting benefits for the economy and society.
- **Timely Support:** The scheme's initiation during the Covid-19 pandemic highlights its significance in providing timely support to states. By boosting capital spending, it helps in reviving economic activity, creating jobs, and addressing the challenges posed by the pandemic. The scheme

recognizes the importance of timely investment in infrastructure and capital assets to propel economic recovery and mitigate the impact of crises.

Capital Expenditure in India:

- **Definition:** Capital Expenditure (Capex) refers to the allocation of funds by the government for the acquisition, construction, or improvement of physical assets such as infrastructure, buildings, machinery, and equipment.
- **Productive and Growth-Enhancing:** Capital expenditure is considered productive and growth-enhancing as it adds to the productive capacity of the economy. It helps in creating income and employment opportunities in the future.
- **Allocation through Annual Budget:** The Indian government allocates capital expenditure through its annual budget, which is presented by the finance minister. The budget outlines the funds allocated for various capital investment projects.
- **Increased Investment:** Over the years, capital investment outlay in India has witnessed consecutive increases. In the Union Budget 2023-24, the capital investment outlay reached Rs 10 lakh crore, accounting for 3.3% of the GDP. This represents a significant growth of 33%.
- **Effective Capital Expenditure:** The capital expenditure presented in the budget does not include the spending by the government on creating capital assets through grants-in-aid to states and other agencies. To capture the true extent of public investment by the central government, the concept of “effective capital expenditure” has been introduced.
- **Definition of Effective Capital Expenditure:** Effective capital expenditure is the sum of capital expenditure and grants for the creation of capital assets. It includes both the budgeted capital expenditure and the grants allocated for the development of fixed assets such as roads, bridges, schools, hospitals, and more.
- **Significance of Effective Capital Expenditure:** By considering both capital expenditure and grants for capital asset creation, effective capital expenditure provides a comprehensive measure of public investment by the central government. In the Union Budget 2023-24, effective capital expenditure is budgeted at Rs 13.7 lakh crore, which amounts to 4.5% of the GDP.

Source:

<https://indianexpress.com/article/business/economy/centre-approves-rs-56415-crore-to-16-states-for-capital-investment/>

Q.1 Which of the following statements regarding the Special Assistance to States for Capital Investment 2023-24 Scheme is/are correct?

1. The scheme provides interest-free loans for the period of 10 years to states for capital investment.
2. The allocation of funds under the scheme is solely based on the population of the states.

Select the correct answer using the codes below:

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) None of the above

Answer: (d)

Q.2 Which of the following statements regarding the Special Assistance to States for Capital Investment 2023-24 Scheme is/are correct?

1. The scheme is applicable to all states in India.
2. The scheme focuses on sector-specific projects and reforms.

Select the correct answer using the codes below:

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) None of the above

Answer: (b)

Q.3 Discuss the impact and significance of the Special Assistance to States for Capital Investment 2023-24 Scheme in the Indian economy. Evaluate the effectiveness of the scheme in addressing regional disparities and promoting regional development.

Rishabh

