Uttarakhand Public Debt Procedures Manual

Volume I

Department of Finance, Government of Uttarakhand

March 2021

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Preamble

Title of the Manual

The title of the Manual is “Uttarakhand Public Debt Procedures Manual”.

Objective of the Manual

The objective of this Manual is to provide guidance on debt management for the Government of Uttarakhand.

Users of the Manual

Officials in the Finance Department and relevant Line Departments of the State of Uttarakhand.

Version of the Manual

This is the first version of the Manual, issued by the Finance Department, Government of Uttarakhand on _________ and shall come into force with immediate effect.

Any amendments/revision in the Manual shall be carried out with the approval of Secretary (Finance), Government of Uttarakhand.

Revision(s) in the Manual

Revision Record				
Revision No.	**Revision Date**	**Chapter/Section**	**Brief on Revision**	**Approved By**

Preface

The Public Debt Procedures Manual is a comprehensive document which captures the concept of public debt as well as the procedures and activities connected with the Debt Management in the State. The guidelines in the Manual have been presented in a logical sequence for ease of understanding. Annexures have been added wherever required for providing a more holistic perspective on debt related matters.

The debt related instructions and guidelines are currently available in various documents in the form of Rule of Business, Delegation of Powers and Government Orders of the State or in the form of Circulars/ instructions issued by the Reserve Bank of India. These, however, did not cover all facets of the debt management process. Therefore, a need was felt for a comprehensive Manual to bring together all the aspects related to debt management in the State. This Manual documents the detailed processes involved in the entire gamut of debt management. It is also expected to bring about greater transparency on the subject.

This Manual would provide deeper understanding to the officials of the Finance Department and relevant Line Departments of their responsibilities with respect to debt management. It is expected to serve as a guidebook for uniform administration of contracting, recording and servicing of various loans, management of other liabilities and issuance of guarantees to eligible entities.

I would like to place on record the excellent work done by the Technical Review Committee (TRC) headed by Sh. L. N. Pant (Advisor, Finance Department and Deputy Project Director, UkPFMS Project). The TRC has been established for the purpose of preparing this Manual, as part of Uttarakhand Public Financial Management Strengthening (UkPFMS) Project. The Manual has evolved through extensive consultations among members of the TRC comprising Sh. Manish Upreti (Budget Officer), Sh. Manmohan Mainali (Finance Controller) and Sh. Amit Verma (Senior Research Officer). The comments and suggestions provided by the World Bank Task Team under the leadership of Sh. S. Krishnamurthy have been pivotal in improving the quality of this Manual. It has been further enriched with valuable suggestions and inputs provided by Sh. Rajat Mehra (Project Coordinator, UkPFMS Project) and officers from Finance

Section – 1, Budget Directorate and relevant Line Departments. The roles of the Regional Offices (in Dehradun) of the Reserve Bank of India and National Bank for Agriculture & Rural Development (NABARD); Accountant General's Office, Uttarakhand; and National Cooperative Development Corporation, New Delhi, in providing necessary guidance and inputs have also been crucial for drafting of this Manual.

Finally, this Public Debt Procedures Manual, being the first of its kind for the State, I would be open to suggestions to bring about further improvements, if any, and also for bringing to our notice any error, inaccuracy or omission for correction in the next edition.

Amit Negi, IAS

Dehradun **Secretary (Finance)**

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Abbreviations

Abbreviation	Full Form
AAAD	Aid, Accounts and Audit Division
ABC	Annual Borrowing Calendar
ACA	Additional Central Assistance
ADB	Asian Development Bank
AG - A&E	Accountant General (Accounts & Entitlements)
AIC	Average Interest Cost
ATM	Average Time to Maturity
CAG	Comptroller and Auditor General of India
CAS	Central Accounts Section
CM	Clearance Memo
CPI	Consumer Price Index
CSF	Consolidated Sinking Fund
DCMC	Debt and Cash Management Cell
DEA	Department of Economic Affairs
DFID	Department for International Development
DMC	Debt and Cash Management Committee
DMS	Debt Management Strategy
DoE	Department of Expenditure
DPR	Detailed Project Report
DSA	Debt Sustainability Analysis
EAP	Externally Aided Projects
FC	Finance Commission
FD	Fiscal Deficit
FRBM	Fiscal Responsibility and Budget Management
FRBs	Floating Rate Bonds
FS-1	Finance Section-1
FY	Fiscal Year
GASAB	Government Accounting Standard Advisory Board
GIC	General Insurance Corporation
GO	Government Order
GoI	Government of India
GoUk	Government of Uttarakhand
GPF	General Provident Fund
GRF	Guarantee Redemption Fund
GSDP	Gross State Domestic Product
HPC	High-Power Committee
IIB	Inflation-Indexed Bonds
IMF	International Monetary Fund
INR	Indian Rupee

Abbreviation	Full Form
IP	Interest Payments
LIC	Life Insurance Corporation of India
MIS	Management Information System
MoF	Ministry of Finance, GoI
MTDS	Medium Term Debt Strategy
MTFP	Medium Term Fiscal Policy
NABARD	National Bank for Agriculture and Rural Development
NBC	Net Borrowing Ceiling
NCDC	National Co-operative Development Corporation
NSSF	National Small Savings Fund
OD	Overdraft
PCC	Project Completion Certificate
PD	Primary Deficit
PPR	Preliminary Project Report
PRD	Primary Revenue Deficit
PSUs	Public Sector Undertakings
RBI	Reserve Bank of India
RE	Revenue Expenditure
REP	Repayments
RIDF	Rural Infrastructure Development Fund
RR	Revenue Receipts
SBI	State Bank of India
SDF	Special Drawing Facility
SDL	State Development Loan
STD	Short-Term Debt
TGB	Total Gross Borrowings
TNB	Total Net Borrowings
UkFRBM	Uttarakhand Fiscal Responsibility and Budget Management
UP	Uttar Pradesh
WAM	Weighted Average Maturity
WMA	Ways and Means Advances

Chapter 1

Introduction

1.1 The Public Debt Procedures Manual (hereinafter referred to as "the Manual") is a compendium of provisions and procedures relating to Debt Management for the Government of Uttarakhand (GoUk) (hereinafter referred to as "the State"). This Manual is aimed at addressing the need for a comprehensive guideline on the subject matter of Debt Management in the State. An attempt has been made to document all the procedures in a structured manner regarding public debt management in the State. This document will serve as a comprehensive one-stop guidance material.

Objective

1.2 The objective of this Manual is to provide guidance material on debt management for the concerned staff in the Finance Department, Government of Uttarakhand (hereinafter referred to as "Finance Department") and relevant Line Departments of the State. It provides detailed procedures, for contracting, recording and servicing of various loans, management of other liabilities and issuance of guarantees to eligible entities.

1.3 A conscious approach has been adopted in drafting this Manual, to shape it into a lucid and usable document as far as possible. The intent is to provide the legal provisions and the institutional structure along with the prevalent procedures and practices involved with debt management. The Manual attempts to present in a step-by-step manner, debt instrument-wise, the process of contracting, recording and servicing, for ensuring that borrowings are sourced at optimum cost with minimum risk.

Overview

1.4 The topics covered in each of the chapters are summarized below:

- Chapter 2 covers the concept of public debt including its definition and components (internal and external debt and their sub-components). The concept of other liabilities (Public Account) has also been explained in this chapter.
- Legal framework of the debt management is discussed in Chapter 3. Relevant acts, rules and policies have been discussed and the current authorization processes while issuing and servicing of loans have been outlined here.
- In Chapter 4, the institutional structure of all the stakeholders relevant to the debt management in the State has been discussed. Responsibilities of Ministry of Finance (MoF), Government of India (GoI); Finance Department and relevant

Line Departments of GoUk; Reserve Bank of India; and Accountant General (AG – A&E), Uttarakhand have been captured here.

- Chapter 5 includes preparation of borrowing plan (for all sources of debt).
- Chapter 6 details out the process of public debt cycle which include contracting, recording and servicing of loan from each source (market borrowings, loans from Government of India (EAPs), NABARD, NSSF and NCDC). It also provides schematic representation of the key steps.
- Chapter 7 deals with the procedure for issuance of guarantees by the Government on behalf of its Public Sector Undertakings.
- Chapter 8 covers the methods of carrying out various debt portfolio and risk analyses, assess debt sustainability, formulate debt management strategy and the concept of debt restructuring.
- Chapter 9 focuses on the mechanism of short-term liquidity management through SDF, WMA, overdraft facilities, etc.
- Chapter 10 covers the procedure for recording data on various borrowing instruments and enumerates MIS reports required by the State.
- Matters relating to code of conduct and conflict of interest have been addressed in Chapter 11.
- Miscellaneous Chapter in the end cover Other Liabilities (Public Account).
- GoUk aims to streamline its debt management operations. Annexure at the end of the Manual provides some reform initiatives which the State shall undertake to enhance efficiency in debt management.

1.5 In addition to the above topics, necessary Annexures have been provided in Volume II of the Manual. These cover specimens of communication documents (letters/ Government Orders/ Circulars/ Notifications etc.) relating to approvals, sanctions, disbursements, etc., and formats for debt servicing schedules and various MIS reports.

Chapter 2

Public Debt Components

Public Debt

2.1. Public debt refers to total borrowings of the Government contracted against the Consolidated Fund of the State. This debt is a part of Government liability.

2.2. Government liabilities have been broadly classified as debt contracted against the Consolidated Fund of the State (defined as Public Debt) and liabilities in the Public Account, called Other Liabilities. For the purposes of recording public debt of the State, debt and liabilities are considered synonymous. Public debt, therefore, is described as a stock of all liabilities of the Government with different time dimensions accumulated by Government operations in the past and scheduled to be extinguished by Government operations in future.

2.3. Public debt is broadly classified into the following two categories:

Internal Debt

2.4. Debt, which is raised from residents and institutions, within the country and repayable in local currency is described as internal debt. The State is authorised by the Constitution to raise money only from internal resources.

External Debt

2.5. Money raised from individuals and institutions, abroad, including multilateral institutions such as the International Monetary Fund (IMF), the World Bank (WB), Asian Development Bank (ADB), International Development Agency (IDA) etc. and repayable in foreign currency is described as external debt.

2.6. The State does receive loans/grants from external funding agencies through Government of India (GoI). The GoI enters into an agreement with external funding agencies and transfers these loans/grants to the State as loans from GoI. Hence, external debt does not appear among the components of public debt of the State; instead, they appear as part of loans from GoI.

Components of Public Debt

2.7. The components of public debt and other liabilities of the State Government are presented in the following table:

Table 1: Components of Public Debt and Other Liabilities of the State

Components of public debt and other liabilities of the State
A. Public Debt (a+b) **a) Internal debt of the State Government** **i. Market loans** **ii. Compensation and other Bonds** **iii. Loans from NSSF** **iv. Loans from NABARD** **v. Loans from NCDC** **vi. WMA facility from RBI** **b) Loans and advances from the Government of India** **B. Other liabilities - Public Account** **a. Small Savings, Provident Funds, etc.** **b. Reserve funds** **i. Interest bearing** **ii. Non-interest bearing** **c. Deposits and Advances** **i. Interest bearing** **ii. Non-interest bearing** **C. Total liabilities (A+B)**

2.8. The State follows the above classification while disseminating information on public debt in Finance Accounts prepared by Accountant General (Accounts & Entitlements) (AG – A&E).

2.9. The Manual has, therefore, adopted the above approach for determining the Public debt of the State.

2.10. A brief description of the various components of public debt is provided here under for better understanding of officers and staff of the State Government.

Market Loans

2.11. These loans are raised by the State through auction by the Reserve Bank of India (RBI) at competitive market rates of interest. These are untied loans and the money so raised is used by the Government for various developmental activities of the State. They are generally subscribed by banks, insurance companies, financial institutions, Provident Funds, mutual funds, Pension Funds, etc. Individuals are also allowed to subscribe to these loans.

Bonds

2.12. Bonds are issued by the State, through the RBI for a particular sector of the economy to meet its special needs. The interest rates on such bonds may vary from one class to another class of bonds depending on the circumstances of each case. The interest rates on the bonds are determined by the market forces in consultation with Government. Power sector bonds fall in this category.

Loans from National Small Savings Fund (NSSF)

2.13. These loans are provided by the GoI out of collections received from the residents of each State under the various small savings schemes formulated by the GoI. The collections so received are credited to the NSSF, which is managed by the GoI. The GoI then allocates to the respective State, the amount entitled to be received by way of loans from the Fund. These loans are long term loans. The interest rates on such loans are determined by the GoI from time to time. The State issues Special State Government Securities to the NSSF against the loans received from the Fund.

Loans from National Bank for Agriculture and Rural Development (NABARD)

2.14. These loans are received by the State from NABARD from the Rural Infrastructure Development Fund (RIDF) which was set up by the GoI in 1995-96 for financing ongoing rural Infrastructure projects. These are tied loans, meant for specific activities such as rural drinking water schemes, soil conservation, rural market yards, primary schools, mini hydel plants, shishu shiksha kendras, anganwadis, and 5/10 MW Solar Photovoltaic Power Plant. The scope of activities which can be financed under these loans is reviewed and revised from time to time. The quantum of sanction and disbursement is determined annually. The interest rates on these loans are based on Bank Rate and are fixed by NABARD.

Loans from National Cooperative Development Corporation (NCDC)

2.15. These loans are raised by the State from NCDC for financing programmes in specific areas. These are tied loans, meant for financing programmes for production, processing, marketing, storage, export and import of agricultural produce, certain other notified commodities, e.g., fertilisers, insecticides, agricultural machinery, lac, soap, kerosene oil, textile, rubber, etc., supply of consumer goods and collection, processing, marketing, storage and export of minor forest produce through cooperatives, besides income generating stream of activities such as poultry, dairy, fishery, sericulture, handloom, etc. in the cooperative sector. These loans are available at fixed rates of interest as determined by NCDC from time to time.

Ways and Means Advances (WMA) from RBI

2.16. The RBI provide financial accommodation to the State to tide over temporary mismatches in the cash flow within specified limits under its Ways and Means Advances (WMA) Scheme. In addition to WMA, RBI provides Special Drawing Facility (SDF). The interest rate on such advances is linked to the Repo rate. Under this Scheme, the RBI also provides Overdraft facilities (OD) for a certain period after the limits of WMA and SDF is exhausted. If the overdraft exceeds a period of 14 consecutive working days, RBI stops all the payments on behalf of the State.

Loans and Advances from the GoI

2.17. The GoI extends loans and advances to State which are called Block Loans. These are majorly used for financing Externally Added Projects (EAPs). These are long term loans and carry a fixed rate of interest.

Other Liabilities

2.18. All other public money received by or on behalf of the State (other than the funds in Consolidated Fund), where the Government acts as a banker or trustee, are credited to the Public Account. Net balance in the Account is used by the Government for meeting its expenditure. The net balances in the Public Account at the end of the year under various heads such as Provident Funds, Reserve Funds, Sinking Funds, Development Funds, Deposits of Local Bodies and other miscellaneous deposits, thus become the liabilities of the State and are included in Other Liabilities of the State.

Classification of Public Debt for Accounting Purpose

2.19. The accounting of public debt is classified under Sector, Sub-Sector Major Head, Minor Head Sub-Head and Detailed Head.

Public Debt

2.20. Public Debt is divided into two major head under "Sector E. Public Debt" comprising:

- **6003 – Internal Debt of the State Government**
    - 101 – Market Loan
    - 103 – Loans from Life Insurance Corporation of India
    - 104 – Loans from General Insurance Corporation of India
    - 105 – Loans from the National Bank for Agriculture and Rural Development
    - 106 – Compensation and other Bonds
    - 107 – Loans from the State Bank of India and other Banks
    - 108 – Loans from National Co-operative Development Corporation
    - 109 – Loans from other Institutions
    - 110 – Ways and Means Advances from the Reserve Bank of India

    - 111 – Special Securities issued to National Small Savings Fund of the Central Government

- **6004 – Loans and Advances from the Central Government**

    - 01 – Non-Plan Loans
    - 02 – Loans for State / Union Territory Plan
    - 07 – Pre-1984-85 Loans

Loans and Advances given to various Government entities

2.21. Loans and Advances made by the State Government is part of “Sector F. Loan and Advances” The major head are between 6075 to 7615

Public Account

2.22. The major items in the Public Account are grouped under the following Sectors.

- **I - Small Savings, Provident Funds, etc.**
    - 8009 – State Provident Fund
    - 8010 – Trust and Endowments
    - 8011 – Insurance and Pension Fund

- **J - Reserve Funds**
    - 8121 – General and Other Reserve Funds
    - 8222 – Sinking Funds
    - 8229 – Development and Welfare Funds
    - 8235 – General and Other Reserve Funds

- **K - Deposits and Advances**
    - 8336-Civil Deposits
    - 8338-Deposits of Local Funds
    - 8342-Other Deposits
    - 8443-Civil Deposits
    - 8448-Deposits of Local Funds
    - 8449-Other Deposits

2.23. Public Account of the State comprises major head between 8001 to 8554.

Interest Payments

2.24. Interest payments made by the State are part of Major Head – 2049 – Interest Payments. The sub heads relevant to the State comprises of:

- **2049 – Interest Payments**

    - 01 – Interest on Internal Debt

- 03 – Interest on Small Savings, Provident Fund, etc.
- 04 – Interest on Loans and Advances from Central Government
- 60 – Interest on Other Obligations

Summary

- The Government borrows against the Consolidate Fund of the State through internal sources
- Public debt of the State majorly consists of market borrowings, loans from financial institutions and loans from GoI
- Loans/grants from external funding agencies to the State are treated as loans from GoI as the State is not authorised to directly borrow from sources outside India
- The debt of the State includes public debt and other liabilities such as funds in the Public Account

Chapter 3

Legal Framework

3.1. According to the World Bank's "Guide to the Debt Management Performance Assessment Tool", the legal framework for public debt management consists of the following elements:

- **Authorization:** Clear authorization through legislation, to the government and implementing agencies, to borrow and provide loan guarantees
- **Borrowing Purpose:** Defined purposes of borrowing, as a protective measure against the risk of improper utilization of funds
- **Debt Management Objectives:** Distinctly laid down debt management objectives, to help assess performance of the government against predefined parameters
- **Debt Management Strategy:** Formulation of a debt management strategy to achieve the debt management objectives
- **Reporting:** Legal mandatory annual reporting, covering results against the objectives of debt management

3.2. The various provisions related to the above elements have been detailed out in the subsequent sections. The key features are:

i. The head of the Finance Department through various provisions of the Constitution of India and Rules of Business of the State is authorized to borrow on behalf of the State.

ii. The Uttarakhand Fiscal Responsibility and Budget Management (UkFRBM) Act, 2005 stipulates the purpose of borrowing along with the objective and debt management strategy.

iii. The Constitution mandates the State to present the information on debt to the legislature through its Annual Financial Statement (Budget). Comptroller and Auditor General (CAG) is mandated to submit the report to legislature which also contains a section on public debt.

3.3. The public debt in the State is managed through the provisions of the following legislations, Agreements, Rules of Business, Government Orders, etc. issued from time to time:

i. The Constitution of India
ii. The Uttarakhand Fiscal Responsibility and Budget Management Act, 2005
iii. The Uttarakhand Ceiling on Government Guarantee Act, 2016
iv. Agreement of the State with the Reserve Bank of India

v. Rules of Business, Delegation of Powers and Government Orders of the States

Constitution of India

3.4. The Government derives its powers to borrow and to issue guarantees under Article 293 of the Constitution of India. The contours of the borrowing are further elucidated in Article 293 (1) and Article 293 (3).

3.5. **Article 293 (1)** of the Constitution reads as follows:

> *"Subject to the provisions of this article, the executive power of a State extends to borrowing within the territory of India upon the security of the Consolidated Fund of the State within such limits, if any, as may from time to time be fixed by the Legislature of such State by law and to the giving of guarantees within such limits, if any, as may be so fixed"*

3.6. **Article 293 (3)** places further constraint on the borrowing power of the State. The Article provides as under:

> *"A State may not without the consent of the Government of India raise any loan if there is still outstanding any part of a loan which has been made to the State by the Government of India or by its predecessor Government, or in respect of which a guarantee has been given by the Government of India or by its predecessor Government"*

3.7. Reading Article 293(1) and 293(3) together, the State Government can borrow:

a. Only from sources within India (no direct external borrowing)
b. Only within the limits as prescribed by the State Legislature (as per UkFRBM Act)
c. Only against the security of the Consolidated Fund of the State
d. Only from any source with prior consent of the Government of India, if it is already indebted to the Government of India

3.8. **Borrowing sources within India:** State has authority to borrow from the following sources:

- Market
- National Small Savings Fund (NSSF)
- National Bank for Agriculture and Rural Development (NABARD)
- GoI for Externally Aided Projects (EAPs)
- National Cooperative Development Corporation (NCDC)

Apart from the above sources, State also utilises net balance in the Public Account to meet its expenditure. At the end of the year, the net balance in

Public Account is treated as borrowings of the State and referred to as Other Liabilities (State Provident Fund, Reserve Fund, Deposits and Advances).

3.9. In essence, the said Article provides that the State Government cannot borrow from any source without prior consent of the Government of India, if it is already indebted to the Government of India. Such consent is provided by the Ministry of Finance on behalf of the Government of India during the budget preparation of the State in the form of Net Borrowing Ceiling (NBC) for the year, covering all sources of borrowing. In actual practice, the State has to take the consent of the Government of India for all its borrowings.

3.10. Borrowing within the limits as prescribed by the State Legislature: The State can borrow within the limits prescribed by the State Legislature. **Article 246 (3)** of the Constitution grants powers to the State to make laws in this regard. The provisions of the Article are as under:

> *"Subject to clause (1) and (2), the legislature of any State has exclusive power to make laws for such State or any part thereof with respect to any of the matters enumerated in List II in the Seventh Schedule (in this Constitution referred to as the "State List")."*

3.11. Borrow against the security of the Consolidated Fund of the State: Article 266 (1) defines the constituents of the Consolidated Fund of the State. All the money raised by way of loans and interest payments on such loans and repayment of loans will pass through this Fund. The Article inter alia provides as under:

> *"----------all loans raised by that Government by the issue of treasury bills, loans or ways and means advances and all moneys received by that Government in repayment of loans shall form one consolidated fund to be entitled the Consolidated Fund of the State"*

3.12. Article 266 (2) stipulates setting up of the Public Account of the State. This Article provides that all other public money received by the State (other than the funds in Consolidated Fund) is ascribed to the Public Account of the State. The outstanding balance in the Public Account forms part of the liabilities of the State. The Article provides as under:

> *"All other public moneys received by or on behalf of the Government of India or the Government of a State shall be entitled to the public account of India or the public account of the State, as the case may be"*

3.13. As the state borrows on the security of the Consolidated Fund of the State, the yearly debt proposals are approved by the State Legislature as part of the budget process. The Annual Financial Statement (Budget) covers the position of the public debt and the aggregate amount it would borrow during the fiscal year and is placed before the Legislative Assembly of the State for approval.

3.14. Reporting: Article 202 (1) makes it legally mandatory for the State Government to prepare an Annual Financial Statement (also known as the Annual Budget) listing figures of receipts and expenditure of the State covering actuals of the previous year, revised estimates of the current year and budget estimates of the ensuing year and present it before the Legislative Assembly of the State for approval. The Annual Financial Statement also covers the position of the public debt and the aggregate amount it would borrow during the fiscal year.

3.15. Article 151 (2) states that the Report of the Comptroller and Auditor General of India (CAG) should be submitted to the Governor of the State who in turn, would presents it to the State Legislature. The CAG Report has a section which deals with public debt. It provides as under:

> *"The reports of the Comptroller and Auditor General of India relating to the accounts of a State shall be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State."*

Uttarakhand Fiscal Responsibility and Budget Management Act 2005

3.16. Through the power vested under Article 246 (3) of the Constitution, State enacted the Uttarakhand Fiscal Responsibility and Budget Management Act, 2005 (UkFRBM) and The Uttarakhand Ceiling on Government Guarantees Act, 2016 to ensure fiscal discipline and set the limits on borrowings and guarantees in the State.

3.17. The UkFRBM Act (Vol. II – Annex 1) was enacted in 2005 to ensure stability and sustainability in fiscal operations and prudent debt management through limits on State Government borrowings. It lays down the foundation for the preparation of a Medium-Term Fiscal Policy (MTFP) to be presented along with the Annual Budget of the State.

3.18. The Act lays down **the purposes for which the borrowing can be used** as well as those for which they cannot be used. Section 4 (1) of the Act provides that the State should ensure that **borrowings are used for developmental activities**, which are evaluated to become self-sustained, and creation or augmentation of capital assets, and are **not applied to finance current expenditure**. The important clauses in the Act relevant to debt management in the State are provided below:

> *Section 4 (1): The State Government shall be guided by the following fiscal management principles:*
> *(a) To maintain Government debt at prudent level;*

(b) To manage guarantees and other contingent liabilities prudently, with particular reference to the quality and level of such liabilities;
(c) To ensure that policy decisions of the Government have due regard to their financial implication on future generation;
(d) To ensure that borrowings are used on development activities, which are evaluated to become self-sustained, and creation or augmentation of capital assets, and are not applied to finance current expenditure;
(e) To ensure discharge of current liabilities in a timely manner.

3.19. The Act, while laying down the **objectives of debt management**, provides that the Government should:

- Maintain sensible levels of debt
- Manage guarantees and other liabilities prudently
- Minimize fiscal risk
- Discharge liabilities in a timely manner

3.20. Based on the recommendations of the 14th Finance Commission, the Act was amended in 2016 (Vol. II – Annex 2) to make the budget management process more comprehensive. It prescribes **the annual borrowing limit for the State** as under:

- The net borrowing limit is 3 percent of the GSDP
- An additional limit of 0.25 percent of the GSDP, if debt to GSDP ratio is less than 25 percent in the preceding year
- Another additional borrowing limit of 0.25 percent of the GSDP, if the interest payments are within 10 per cent of the revenue receipts in the preceding year
- The maximum borrowing limit, thus, can go up to 3.5 percent of the GSDP
- The additional limits can be availed of separately or simultaneously only if there is no revenue deficit in the year in which borrowing limits are to be fixed and the immediately preceding year

Consolidated Sinking Fund Scheme, 2006

3.21. Consolidated Sinking Fund (CSF) (Vol. II – Annex 3) was constituted by Government of Uttarakhand (GoUk) for redeeming its outstanding liabilities. The interest accrued and accumulated in the Fund shall be utilised towards the redemption of outstanding liabilities. The Fund shall not be used for any other purpose provided that the annual incremental investment of the State shall be eligible for availing Special Drawing Facility (SDF) from the RBI.

3.22. Contribution to the Fund: The State may contribute to the Fund at least 0.5 percent of the outstanding liabilities of the previous fiscal year. State shall invest in Fund from the durable cash balance, General Revenue or from other sources such as disinvestment proceeds, at its discretion and not out of borrowings from RBI.

State may build up a minimum CSF corpus of 3% to 5% of its liabilities and is encouraged to build on its efforts further. The Fund shall be administered by RBI as per the directions of the State.

Uttarakhand Ceiling on Government Guarantee Act, 2016

3.23. The Act (Vol. II – Annex 4) prescribes the limit for issue of guarantees by the State Government on behalf of its Public Sector Undertakings, Local Bodies, Statutory Boards, Corporations, Cooperative Institutions, other Authorities and Agencies, to the lenders.

3.24. The ceiling on Government guarantees prescribed by the Act is as under:

- Total outstanding Government guarantees should not exceed one percent of the GSDP
- Total fresh Government guarantees issued in a year should not exceed 0.3 percent of GSDP estimated for that year

3.25. The guarantee commission to be collected is as under:

- State shall charge a minimum of one percent of the amount of guarantee loan as guarantee commission
- State may enhance the guarantee commission depending on the default risk of the project
- State shall not waive off guarantee commission under any circumstance

3.26. The guarantee commission will add to the corpus of the **Guarantee Redemption Fund (GRF)** (Vol. II – Annex 5), which will be part of the Public Account of the State. Contribution to the GRF will be a minimum of 0.5 per cent every year to achieve a minimum level of 3-5 per cent of the outstanding guarantees. If guarantees have been invoked or are likely to be invoked, additional Funds (over and above 5%) shall be maintained. The Fund shall be utilised for meeting payment obligations, arising out of the guarantees issued by the State on behalf of its entities and invoked by the beneficiaries.

Agreement with the Reserve Bank of India

3.27. The State Government has entered into an Agreement with the RBI in accordance with Section 21A of Reserve Bank of India Act 1934 whereby, the RBI acts as a banker to the State Government and as a manager of the public debt of the State. It conducts the following businesses of the State:

- Maintains cash balances and bank account free of interest

- Handles all banking transactions
- Provides remittance and exchange facilities, free of charge
- Manages the public debt and the issuance of any new loans

3.28. RBI provides financial accommodation to the State Government to tide over its temporary adverse cash balance position, under the Ways and Means Advances (WMA). The facilities provided under the Scheme are:

- Normal Ways and Means Advances (WMA)
- Special Drawing Facility (SDF)
- Overdraft (OD)

3.29. The quantum of such facilities, the period for which they are provided and other terms and conditions thereof, have been dealt with separately in chapter 9 of the Manual.

Rules of Business, Delegation of Power and Government Orders

3.30. **Article 154** of the Constitution confers upon the Governor of the State, the executive power of the State. The Governor can exercise the powers directly or delegate the powers to subordinates within the permissible defined limits. On this basis, the powers in relation to public debt are delegated to the officers of the State:

> *"The executive power of the State shall be vested in the Governor and shall be exercised by him either directly or through officers subordinate to him in accordance with the Constitution."*

3.31. All contracts concerning the State are made in the name of the Governor and executed on behalf of Governor by authorised officials.

3.32. **Clause 28 (v) of the Uttar Pradesh Secretariat Instruction 1982** (Vol. II – Annex 6) stipulates that Finance Department is authorised and overall in charge of raising loans, servicing of loan and discharge of any financial guarantees. As the Head of the Finance Department, it is the Secretary (Finance) who is vested with the authority to perform the aforesaid functions and manage the public debt of the State on behalf of the Government.

Uttarakhand was formed when it was separated from the State of Uttar Pradesh (UP) in 2000. For the purpose of facilitating the business procedures, Government of Uttarakhand follows the Rules/GOs of Government of Uttar Pradesh wherever the relevant Rules/GOs are not separately established by GoUk.

Summary

- Government derives its powers to borrow and to issue guarantees under the Article 293 of the Constitution of India, only from the sources within India and with prior consent of the Government of India
- UkFRBM Act, 2005 stipulates purpose and objective of borrowing. It also provides for debt management strategy along with annual borrowing limit for the State
- RBI acts as a banker to the State Government and manager of the public debt of the State
- The head of the Finance Department is authorised to borrow in the name of the Governor of the State by Rules of Business

Chapter 4

Institutional Arrangement

4.1 Management of public debt is dependent on an effective institutional arrangement, which clearly specifies the authority, functions and responsibilities of each stakeholder. As per the International Monetary Fund (IMF) and the World Bank (WB) "Guidelines for public debt management", clearly specified institutional arrangement enables debt managers to have the operational independence to achieve debt management objectives.

4.2 The institutions involved in management of public debt in the State are as below:

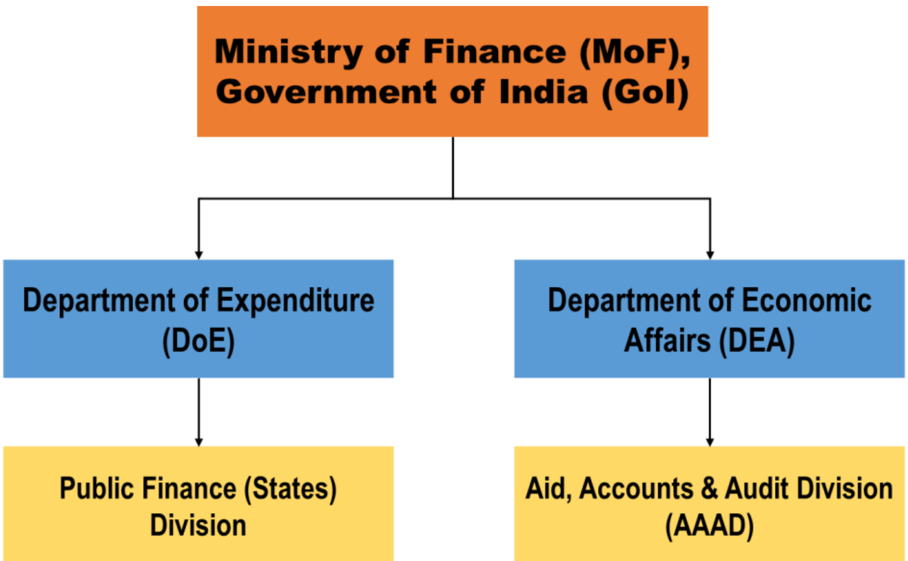
- Ministry of Finance (MoF), Government of India (GoI)
- Finance Department, Government of Uttarakhand
- Line Departments, Government of Uttarakhand
- Reserve Bank of India
- Accountant General (Accounts & Entitlements)

4.3 Each of the above institutions has a well-defined role in the management of public debt of the State ensuring operational independence. The roles and responsibilities of each institution are elaborated in the subsequent sections.

Role of Ministry of Finance

4.4 Ministry of Finance, Government of India, is the nodal agency for monitoring the public finances of the State Governments. Department of Expenditure (DoE) and Department of Economic Affairs (DEA) within the Ministry of Finance deal with debt related aspects of the State. The departments and division of MoF involved in public debt management of the state are as under:

Figure 1: MoF, GoI – Department & Division concerned with State Debt



4.5 The functions of DoE and DEA in relation to debt related aspects of the State are provided below:

Department of Expenditure, MoF

4.6 Public Finance (States) Division, in DoE is entrusted with the responsibility related to State's debt and liabilities management, among other things. It is also referred to as State Finance Division. It primarily performs the following functions:

- Determine the Net Borrowing Ceiling (NBC)
- Consent for raising loans, under Article 293 (3) of the Constitution
- Approve the borrowing calendar
- Advise State during issues in cash management
- Assist State to tide over adverse ways and means position
- Monitor debt sustainability of the State

Department of Economics Affairs, MoF

4.7 DEA in the Ministry of Finance is responsible among other things, for negotiating loans, credit, grant and assistance from multilateral and bilateral institutions. It is mandated to process external loans, which are passed on to State Government as loans from GoI. Aid, Accounts and Audit Division (AAAD) in DEA is entrusted with processing of claims, receipt of amount from lenders and processing with Public Finance (States) Division for disbursing amounts to the states maintaining database and servicing of external loans. Major responsibilities of DEA are laid out below:

- Examine State's proposals for availing loans for Externally Aided Projects (EAPs) and provide consent for the same
- Negotiate terms and conditions of loans from International Financial Institutions (IFIs)
- Finalise loan agreement and notify relevant stakeholders
- Monitor disbursement of loans, their interest payments and principal repayments

AAAD is exclusively responsible, among other things, for the following:

- Recording information on external loans
- Processing the drawal applications of the State for reimbursable loans
- Debt servicing of external loans

Role of Finance Department

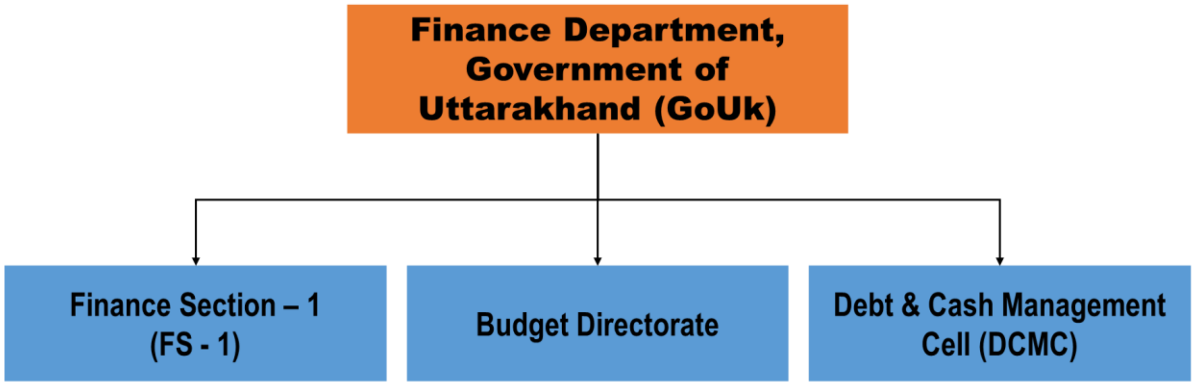
4.8 Finance Department is responsible for public debt management in the State. As part of its responsibility, it prepares annual borrowing plan, and formulates and implements debt management strategy.

4.9 Finance Department is principally responsible to take crucial decisions on the source and amount of borrowing. It negotiates and finalises loan agreement, monitors day-to-day cash position and services debt. The Department is a focal point for communications with all the stakeholders involved in debt management. It collates data and information from stakeholders and periodically generates necessary reports.

Finance Section – 1 (FS – 1) and Budget Directorate

4.10 Finance Section – 1 (FS -1) and Budget Directorate within Finance Department are involved in management of debt. FS -1 is one of the 10 sections of Finance Department and is authorised to manage debt in the State (Refer Vol. II – Annex 7 for Secretarial Work Distribution for FS-1). It is ably supported by Budget Directorate in debt management process.

Figure 2: Finance Department and its Section concerned with State Debt



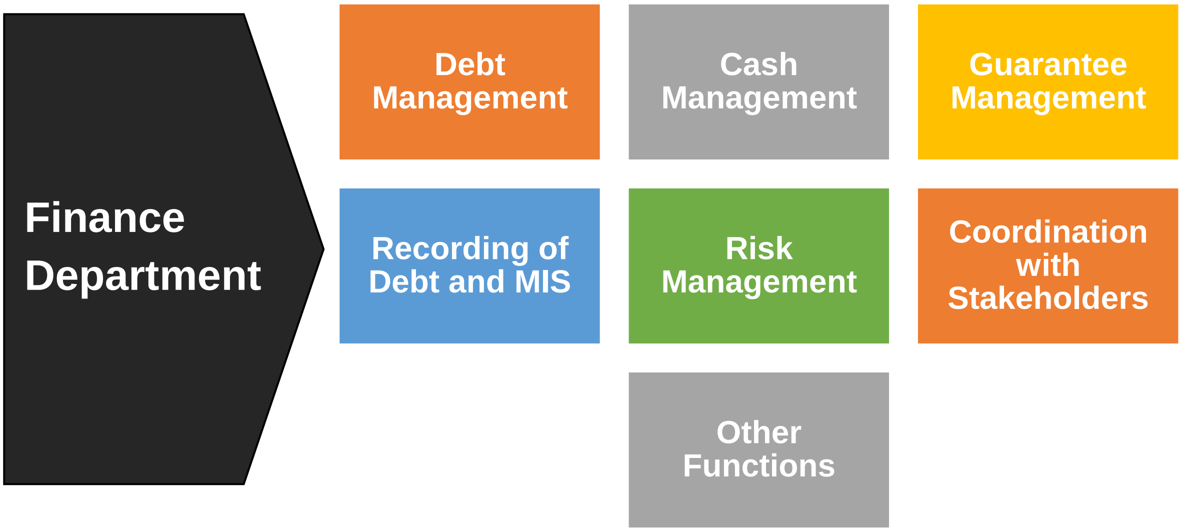
Debt and Cash Management Cell

4.11 Debt and Cash Management Cell within Finance Department exclusively deals with cash and debt management functions of the State. Broadly, the Debt and Cash Management cell supports Finance Department on followings aspects:

- Assessment of borrowing requirements
- Preparation of borrowing calendar
- Identification of sources of borrowing
- Determine tenure of loans
- Any other matter related to public debt management in State

4.12 The roles and responsibilities of Finance Department are broadly classified into seven categories as under:

Figure 3: Role and Responsibilities of Finance Department



4.13 The responsibilities covered by each of the above categories are described hereunder:

Debt management

- Prepare borrowing plan aligned with the debt management strategy
- Prepare annual and quarterly (week-wise) calendar for market borrowings
- Actively meet the funding requirements of the State Government
- Look for alternative sources of borrowing which are consistent with debt management objectives
- Borrow as per approved budget and borrowing calendar
- Raise funds from market and various other sources at competitive rates
- Review Detailed Project Report (DPR) sent by various line departments seeking loan and provide consent
- Negotiate loans from various sources
- Monitor disbursement of loans, reconcile and validate the amount with relevant stakeholders
- Track utilization of loans by various project implementing agencies and line departments
- Prepare debt servicing schedule as and when loan is taken
- Arrange funds for repayment of principal and interest payment and timely processing of the same
- Ensure timely contributions to consolidated Sinking Fund

Cash management

- Prepare cash flow forecasts based on receipts/expenditure estimates

- Arrange for cash to meet liquidity requirements of the State, on a timely basis
- Ensure maintenance of required minimum balance in State's account with RBI
- Monitor and effectively use SDF, WMAs and OD schemes of RBI in managing minimum balance and short-term cash requirements
- Manage cash surplus/shortfall by investing/discounting the treasury bills with assistance from RBI

Guarantees Management

- Formulate and implement Acts, GOs and policies relating to the issuance of government guarantees
- Process application for government guarantees by assessing the need for guarantee, debt servicing capacity and credit assessment of guarantee seeking entity
- Approve and issue guarantees
- Collect the guarantee commission in a timely manner
- Monitor the performance of loan guarantees by assessing the financial health and associated credit risk, if any
- Ensure timely contributions to Guarantee Redemption Fund

Recording of Debt Data and MIS

- Collate and record information on public debt from all the stakeholders
- Reconcile and validate data with all stakeholders periodically
- Regularly update and maintain debt database
- Prepare periodic reports on status of public debt for higher authorities, budget books, Government, Legislature etc.

Risk Management

- Monitor and track key debt indicators against the targets
- Undertake Debt Sustainability Analysis (DSA) periodically to assess medium-term and long-term debt sustainability
- Conduct periodic portfolio analysis to assess associated risks

Coordinate between various stakeholders

- Coordinate with all stakeholders including MoF, GoI, RBI, AG - A&E, all lenders and donors and line departments for effective debt management

Other functions

- Assess the project proposal and need for funding for Government entities
- Process application for Loans and Advances to various Government entities

- Negotiate and finalise terms and conditions of loan being given to various Government entities
- Finalise loan agreements and sanction loans
- Disburse loans and monitor the performance of the project and utilization of loan
- Collect timely principal and interest payments on loans issued to other government entities
- Estimate the amount of other liabilities (Public Account) accurately to determine total liability of the State
- Monitor developments in financial market, State and national economy

Role of Line Departments

4.14 Line departments' role with respect to debt management is limited to preparation of project proposal for seeking loans. However, Finance Department is responsible for contracting, recording and servicing of loans provided to various line departments.

4.15 The responsibilities of Line Departments are as follows:

- Prepare DPR/ project proposal for which funding is required
- Submit DPR/ project proposal to Finance Department and seek approval
- Engage in loan negotiations
- Submit drawal request to lending agencies for timely disbursement of loan amount as per the terms and conditions of loan
- Periodically submit to Finance Department, status report and necessary data/information on implementation of project for effective tracking of loan utilization

Role of Reserve Bank of India

4.16 RBI, which is the Central Bank of India, acts as a banker to the State under the provisions of Reserve Bank India Act 1934. It maintains the Government Principal Deposit Account and carries out financial transactions of the State as per the agreement with the State. RBI is responsible for carrying out cash and debt management functions on behalf of the State. RBI is also the manager of State public debt, as a debt manager, it assists the State in raising resources from the market.

4.17 The major role and responsibilities of RBI are:

- Conduct auction of government securities for raising new loans
- Facilitate secondary market transactions of government securities

- Service SDLs and NSSF loans
- Realise loan floatation charges and debt management commission on the outstanding SDL
- Maintain Government Principal Deposit Account
- Consolidate balances in various State Accounts and notify State about cash position at the end of each day
- Provide financial accommodation to the State by means of SDF, WMA and OD, to tide over temporary mismatches in the cash flow of their receipts and payments
- Invest surplus funds in Treasury Bills and rediscount them in case of shortfall in the required minimum balance, as per the instructions of the State
- Administer Consolidated Sinking Fund and Guarantee Redemption Fund of the State
- Record and maintain data on SDLs and loans from NSSF
- Publish report key public debt indicators

Role of Accountant General (Accounts & Entitlements)

4.18 Accountant General (Accounts & Entitlements) (AG - A&E) is responsible to maintain the accounts of the State. It receives inputs periodically from State Treasuries, Pay and Accounts Offices (PAOs), and the RBI. It prepares the Appropriation and Finance Accounts of the State. It compiles Public Account of State which inter alia includes General Provident Fund Account, deposits and advances etc.

4.19 The role of AG - A&E is summarised below:

- Record and maintain information on debt servicing for loans from GoI
- Prepare debt servicing schedule for loans from GoI and communicate to Finance Department
- Advice RBI on servicing of loans from GoI, as per schedule
- Update its records based on Daily Position (Cash) report, interest warrant payment scrolls and Clearance Memo (CM) from RBI
- Update public debt records on disbursement and servicing of loans
- Provide information on public debt to Finance Department on need basis
- Collect and record data on Government guarantees based on the information provided by the State
- Maintain Public Account of the State
- Maintain records related to loan and advances given to various government entities based on information provided by the State
- Maintain records on SDF, WMA and OD facilities availed by the State
- Update data on debt servicing for loans from NSSF

Summary

- DoE and DEA within the Ministry of Finance deal with debt related issues of State
- Finance Department is responsible for managing debt, cash, guarantees along with recording debt related data and its analysis
- As a banker to the State, RBI is responsible for managing public debt along with assisting State in raising loans from market and its servicing
- AG - A&E is responsible to record public debt data and maintain accounts of the State

Chapter – 5

Annual Borrowing Plan

Annual Borrowing Plan Preparation Procedure

5.1 Finance Department shall prepare an annual borrowing plan based on principles of prudent debt management as laid down in the medium-term fiscal policy. Annual borrowing plan shall be prepared by considering the borrowing limits set by Ministry of Finance (MoF), Government of India (GoI), and financing requirements of the State. While preparing borrowing plan, the aim shall be to reduce cost of borrowing and ensure timely availability of funds.

5.2 The procedure for preparing the annual borrowing plan for next fiscal year is laid out below and flowchart is shown in Figure 4:

Step 1. MoF, GoI to provide Net Borrowing Ceiling (NBC) to the State. (Refer Vol. II – Annex 8 for specimen notification from MoF on NBC)

Step 2. Line Departments shall provide following information to Finance Department on its loan funded projects:

- Project utilization (Financial progress)
- Expected schedule of loan disbursements from funding institutions
- List of proposed projects requiring loans

Step 3. Funding institutions (NABARD, NCDC, etc.) to provide sanction and disbursement limits for tied loans to Finance Department

Step 4. Finance Department shall prepare fiscal projections and monthly cash flow forecasts

Step 5. Finance Department shall determine the financing requirements by analysing fiscal and cash flow projections together

Step 6. Finance Department shall prepare the borrowing plan considering the following:

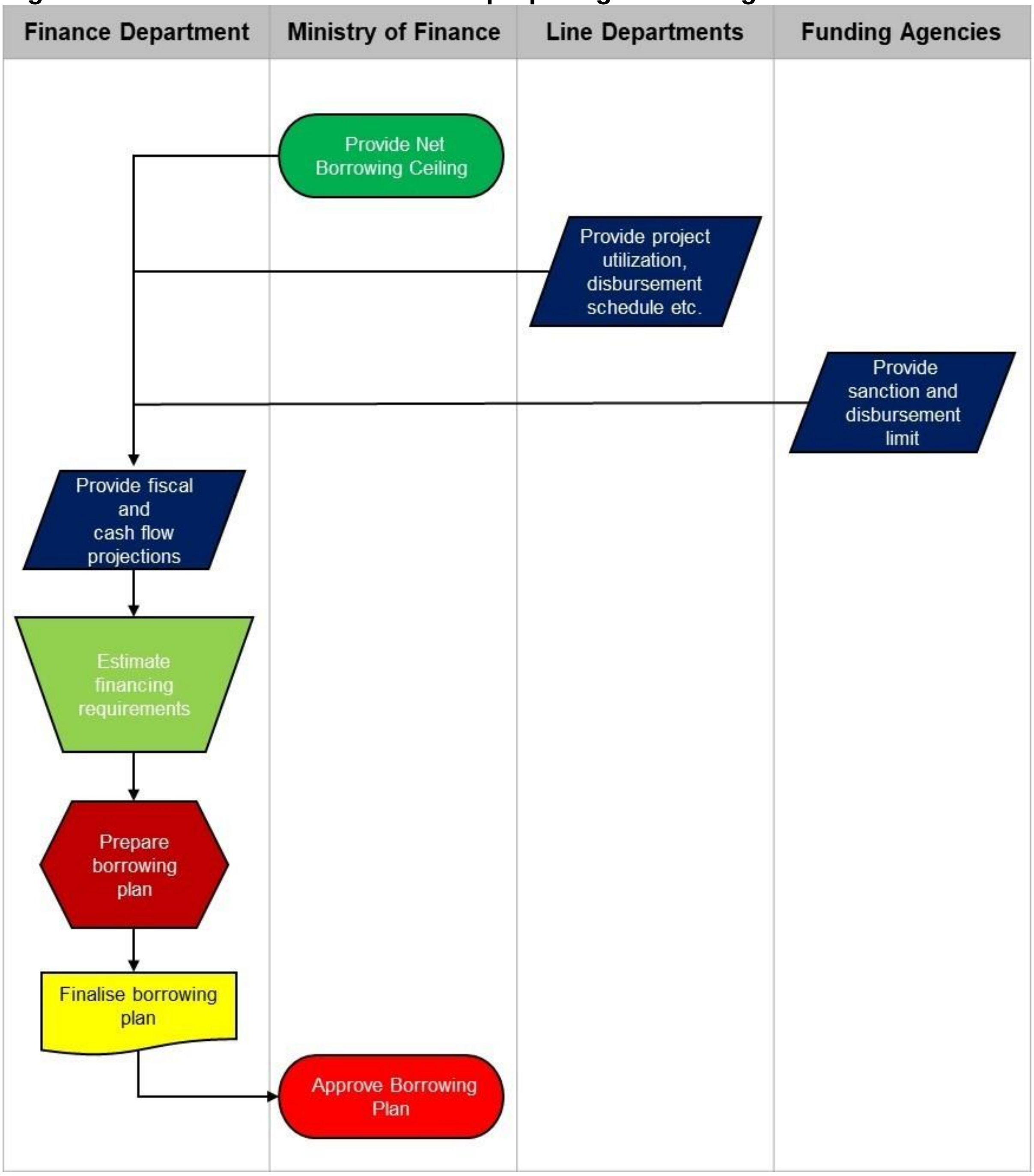
- NBC
- Various sources of borrowing
- Estimated loan disbursements of various loans
- Financing requirements

Step 7. Finance Department shall finalise borrowing plan that would include amount to be borrowed through SDL, from NABARD, NCDC, GoI and any other source and send it to MoF, GoI for approval. Relevant stakeholders may be notified about the borrowing plan

Step 8. MoF, GoI to approve annual borrowing plan

The borrowing plan shall be detailed out to quarterly or monthly frequency, as per requirement of the Finance Department.

Figure 4: Flow Chart – Procedure for preparing Borrowing Plan



Summary

- Finance Department shall prepare the annual borrowing plan by considering the borrowing limits set by MoF, GoI, financing requirements of the State and various eligible sources of borrowing

Chapter – 6

Debt Procedures

6.1 The State normally borrows from the following sources:

- Market
- GoI (for EAPs)
- NSSF
- NABARD
- NCDC

6.2 Procedure for borrowing from these sources is detailed out in the following sections.

Market Borrowing

6.3 Market borrowing largely consists of State Development Loans (SDLs) and is a major source of borrowing for the State for untied developmental expenditure. As per the agreement with the State, RBI assists Finance Department, in raising new loan from market through an auctioning process, its recording and servicing.

Characteristics

- SDLs are dated securities
- Fixed coupon, market determined
- Fixed tenure with usual maturity of 10 years
- Principal amount to be repaid after maturity
- Interest payment is half yearly till the maturity

Procedure – Market borrowing calendar

6.4 Once GoI provides approval on annual borrowing plan, Finance Department shall prepare month-wise calendar for market borrowings. The procedure for preparing market borrowing calendar is laid down below and flowchart is shown in Figure 5:

Step 1. Finance Department shall prepare the indicative market borrowing calendar for the first nine months of the FY (April – December) by considering the following:

- Quantum of market borrowings approved by MoF, GoI
- Monthly financing requirements determined based on projected revenue receipts and expenditure
- Estimated borrowings from sources other than SDLs

The calendar shall present the month-wise indicative amount of market borrowings. (Refer Vol. II – Annex 9 for specimen market borrowing calendar)

Step 2. Finance Department shall send the market borrowing calendar to MoF, GoI for approval

Step 3. Ministry of Finance, GoI to provide approval on market borrowing calendar (first nine months) and notify the State and RBI

Step 4. Finance Department shall prepare the week-wise quarterly market borrowing calendar after receiving approval from GoI. Quarterly market borrowing calendar shall be prepared before the beginning of each quarter. The Finance Department shall consider the following factors while preparing the week-wise borrowing calendar:

- Monthly market borrowing requirement
- Weekly financing requirements
- SDF/Ways and Means Advances (WMAs) limit and its availability
- Dates of auction (RBI provides date of auctions at the beginning of each quarter)

Week-wise borrowing calendar shall include the week of auction, date of auction and indicative amount of borrowing. (Refer Vol. II – Annex 10 for specimen on Week-wise Quarterly market borrowing calendar)

Step 5. Finance Department shall send the quarterly borrowing calendar to RBI at the beginning of each quarter

Step 6. RBI to publish the quarterly borrowing calendar on its website by way of press release

Figure 5: Flow Chart – Procedure for preparing Market Borrowing Calendar

6.5 Finance Department shall seek approval from the MoF, GoI on borrowing limit for the last Quarter of the FY (January – March). The procedure from step 4 above are to be followed to prepare the week-wise borrowing calendar for last quarter.

Procedure – Issuing new SDL

6.6 State shall follow the approved borrowing calendar for raising funds through market borrowings. RBI to assist State in raising funds through auctions. The procedure for raising loans is elaborated below and flowchart is shown in Figure 6:

Step 1. Finance Department through the willingness letter shall confirm to RBI the required amount and tenor of securities to be raised at least one week before the auction date

Step 2. RBI to provide draft Specific Notification for borrowing to be made by Finance Department

Step 3. Finance Department with assistance from RBI shall prepare specific notification which covers the terms and conditions for the issuance of SDL. Some of the key information to be provided are as below:

- Nomenclature of the security
- Objective of borrowing
- Place and date of auction
- Amount to be raised
- Tenure of the security
- Date of interest payment
- Date of repayment and coupon payment
- Other details as per the prescribed format

(Refer Vol. II – Annex 11 and 12 for General and Specific Notifications on issuing SDLs)

Step 4. Finance Department shall provide the signed specific notification to RBI

Step 5. Finance Department shall also share the notification with Information and Public Relation Department (DIPR) for publication in National Newspapers

Step 6. RBI to publicise the auction

Step 7. RBI to conduct the auctions at stipulated time (generally on Tuesdays every week) on its e-kuber electronic platform

Step 8. Based on the amount required and bids received in the auction RBI to inform the market cut-off to Finance Department

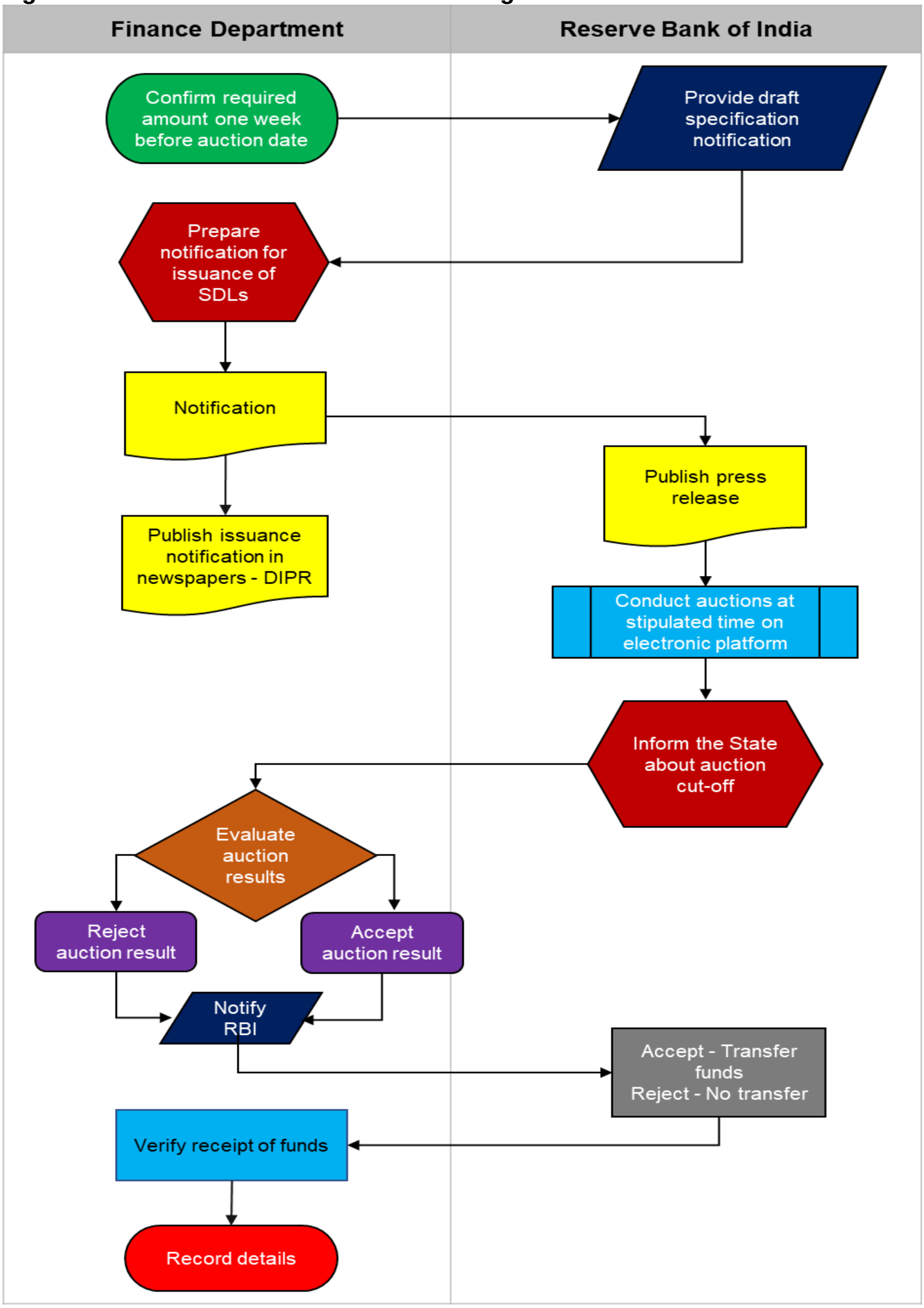
Step 9. Finance Department shall evaluate and determine whether to accept or partially accept or reject the auction results and inform RBI accordingly within specific time limit

Step 10. Based on the State's decision there are two possibilities

- If Finance Department accepts the auction result – RBI to transfer the notified amount to State Consolidated Fund Account with RBI on the next working day. Finance Department may accept partial amount at lower cut-off if bids are available at lower yields
- If Finance Department rejects the auction result – RBI to reject all the bids and State will not receive any funds from that auction

Step 11. Finance Department shall verify the receipt of funds from RBI based on State's daily position statement and update the information in register/system of the State

Figure 6: Flow Chart – Procedure for raising loan from market



Procedure – Servicing of SDL

6.7 The procedure for servicing of SDL is presented below and flowchart is shown in Figure 7:

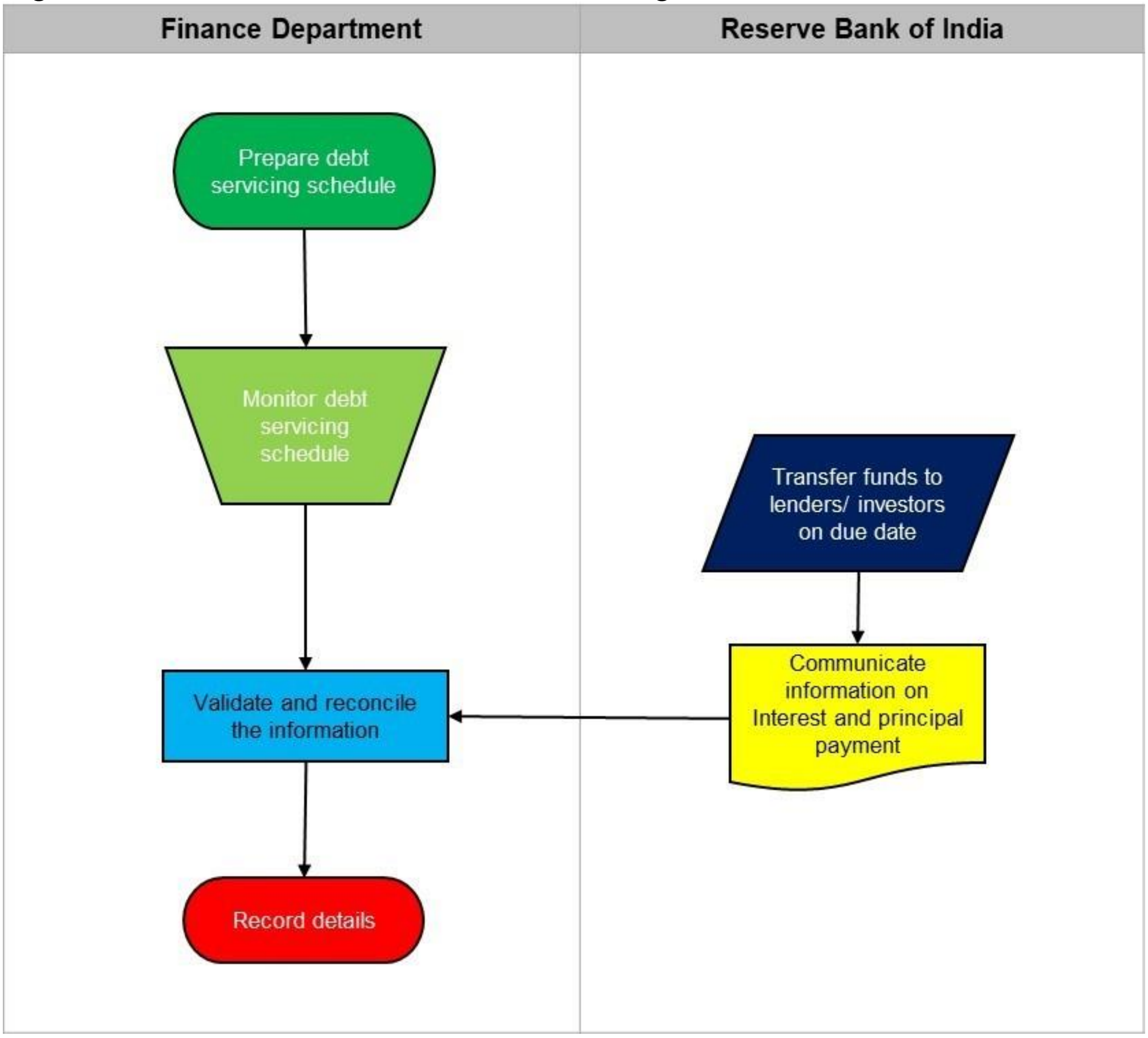
Step 1. Finance Department shall prepare the debt servicing schedule for each new SDL.
Finance Department shall monitor the debt servicing schedule regularly such that it can timely arrange funds to meet its servicing obligations

Step 2. RBI to process the interest payments on SDLs as per the due date (every six month) and principal repayment on maturity. It transfers the funds from State Consolidated Fund Account to the investors

Step 3. RBI to communicate to the Finance Department and AG (A&E) the fund transfer details through interest warrant payment scrolls and Clearance Memo.

Step 4. Finance Department shall validate and reconcile the information shared by RBI. In case of any discrepancy, the same shall be taken up with RBI for reconciliation. It shall also update the information in its register/system

Figure 7: Flow Chart – Procedure for servicing of SDL



Procedure – Closure of SDL

6.8 The procedure for closure of SDL is presented below and flowchart is shown in Figure 8:

Step 1. RBI to communicate to Finance Department on SDLs due for maturity and corresponding principal repayment in advance. It provides necessary documents, templates etc. to Finance Department for initiating principal repayment. (Refer Vol. II – Annex 13 for specimen notification from RBI maturity of SDL)

Step 2. Finance Department, with the assistance from RBI, shall prepare a press communique announcing the principal repayment of SDLs one month before the date of maturity. Press communique shall contain the manner in which securities are to be presented for repayment and the form of discharge receipt to be furnished. (Refer Vol. II – Annex 14 for specimen Press Communique released by the Finance Department)

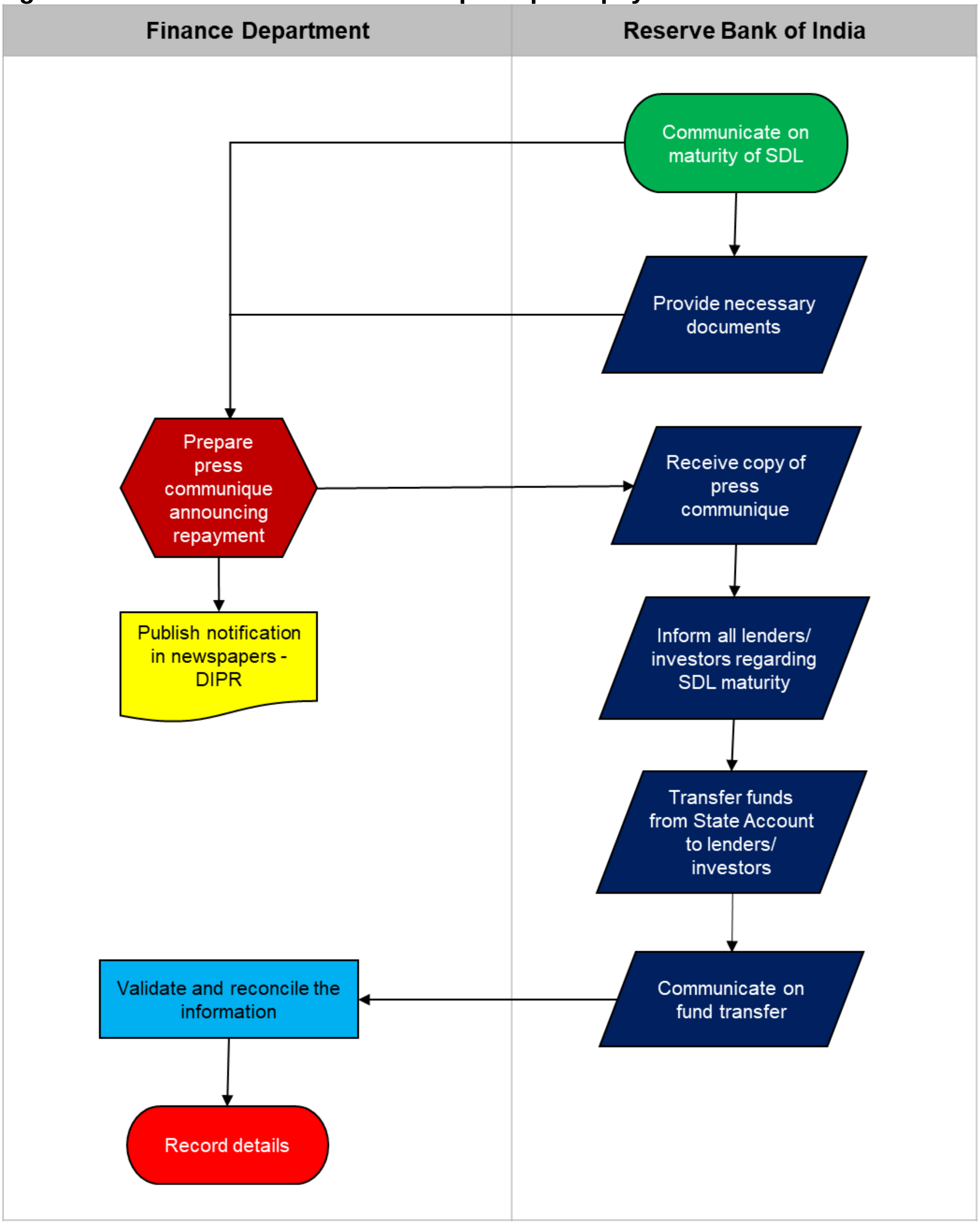
Step 3. Finance Department shall provide the copy of press communique to RBI and DIPR

Step 4. RBI to inform all the investors regarding the maturity of SDL

Step 5. RBI to transfer the principal due to the investors from State Consolidated Fund Account and communicate to Finance Department

Step 6. Finance Department shall validate and reconcile the information shared by RBI. In case of any discrepancy, the same shall be taken up with RBI for reconciliation. It shall also update the information in its register/system

Figure 8: Flow Chart – Procedure for principal repayment of SDL



Loans from GoI

6.9 Loans and advances from GoI majorly consist of block loans. Rest of the loans are house building advance, National loans scholarships schemes and rehabilitation of displaced persons repatriates, etc.

Block Loans

6.10 GoI provides external assistance (through multilateral and bilateral agencies) to the Special Category States as Additional Central Assistance (ACA). These States, including Uttarakhand are given assistance on 90:10 basis, wherein 90% of assistance is provided as grant and 10% is loan to the State. This 10% loan amount is the liability of the State and treated as loan from GoI. The terms and conditions are determined by GoI. Multiple transfers of the loan amount to the State during the year are treated as advances, which are consolidated at the end of the fiscal year and treated as a single loan. Hence loans availed through this mechanism are called Block Loans.

Characteristics

- Loans from GoI are majorly block loan
- Tied loans used for EAP funding
- Fixed interest rate determined by GoI
- Fixed tenure majorly 20 years
- Principal amount to be repaid in 20 instalments
    - In first five years, 12.5% of the principal amount is to be paid in five equal instalments
    - In the next 15 years, remaining principal amount i.e. 87.5% of the principal amount is to be paid in 15 equal instalments
    - The principal due each year is to be paid in 10 equal instalments between June and March
- Interest payment due for the said year is to be paid in 10 equal instalments between June and March

Procedure – Raising Loans from GoI

6.11 The key stakeholders involved in management of loans from GoI for EAPs are the State, Centre, and external funding agencies. The stakeholders from State are:

- Finance Department
- Planning Department
- Line department seeking loan
- AG - A&E, Uttarakhand

6.12 The Stakeholders from Centre are:

- Department of Economic Affairs (DEA), MoF
- Department of Expenditure (DoE), MoF
- Aid, Accounts and Audit Division (AAAD), MoF

6.13 DEA, MoF is the nodal department for obtaining foreign assistance from multilateral/bilateral agencies. Prior approval is required from DEA for seeking external assistance. The procedure for raising block loan is as under and flowchart is shown in Figure 9:

Step 1. Line department seeking loans shall prepare a concept note on the proposed project and seek approval from State Planning and Finance Department

Step 2. The EAP Cell in Planning Department shall conduct comprehensive evaluation of the cost, benefits, social and environmental impact, etc., of the proposed project and provide consent, if satisfied

Step 3. The Finance Department shall examine the concept note. The Finance Department shall ensure that the project posed to the DEA is in line with the priority of the state. It shall evaluate whether net borrowings is within the overall borrowing limits approved by the GoI and provide no objection certificate

Step 4. Post receiving the required approvals, concerned line department shall prepare the Preliminary Project Report (PPR) and seek approval from DEA through Finance Department. The PPR shall be submitted to DEA through its web portal in a prescribed format along with the name of the probable funding agency

Step 5. Steering Committee in DEA to evaluate the PPR, seek clarifications, if any, and provide consent once satisfied. DEA shall finalise the funding agency along with the timeline

Step 6. Funding agency and the state line department with support from finance department prepares the project and achieves all requirements for negotiating the loan. Required approvals for the loan are taken from the State Cabinet\Finance Department as required

Step 7. Line department shall finalise the project report and prepare for negotiations. Finance Department is required to provide budget head and allocation for the project

Step 8. DEA convenes tripartite meeting with State and the concerned funding agency to negotiate the terms and conditions of the loan and sign the agreement

Step 9. The negotiated document is approved by the funding agency board and then the loan is formally signed between DEA, State, and the Agency.

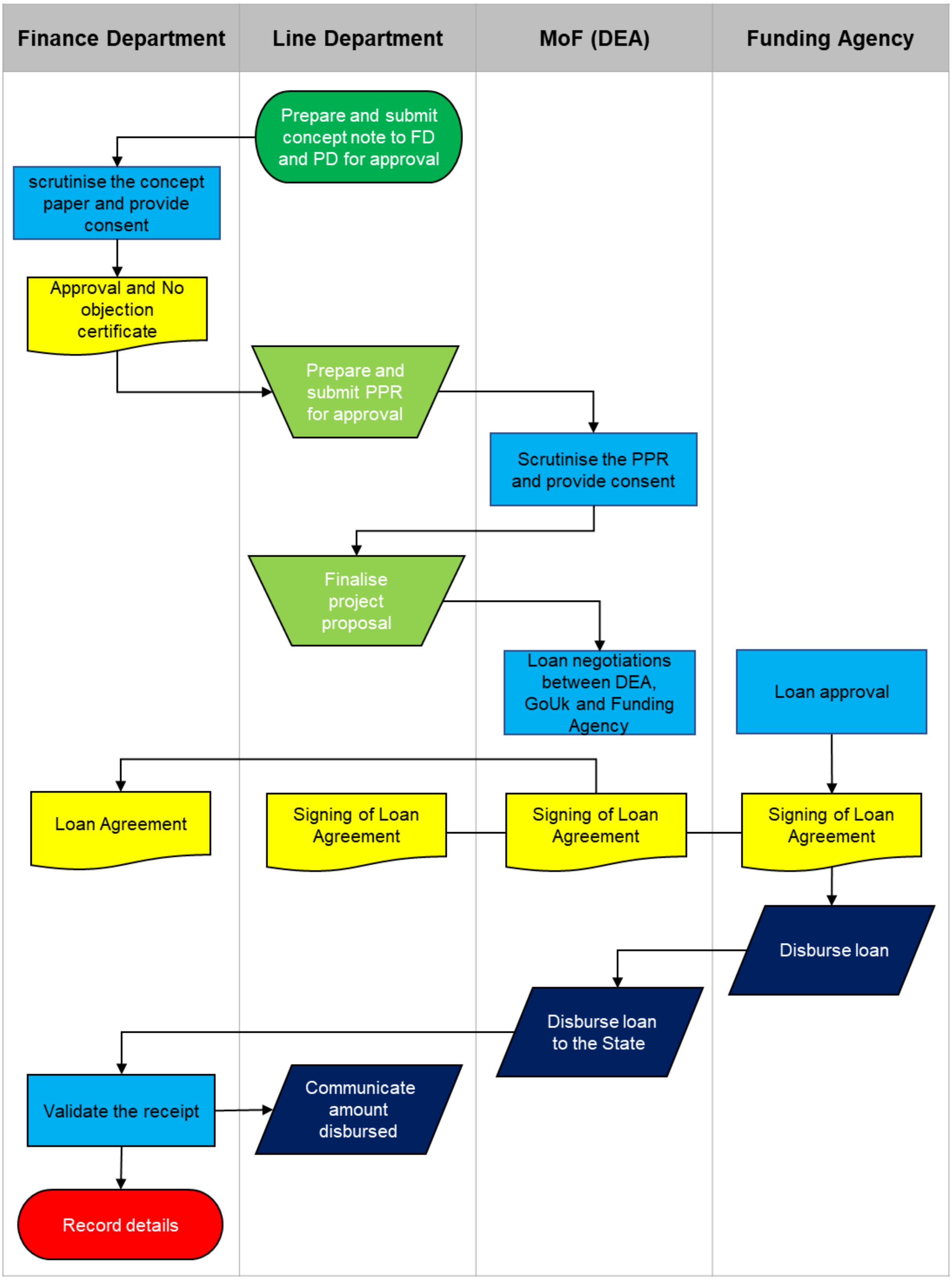
Step 10. Once the loan is sanctioned, DEA to forward the copy of loan agreement to DoE, AAAD, Finance Department, concerned line department, and AG - A&E

Step 11. Funding agency to disburse the loan to GoI as per the terms and conditions in the loan agreement

Step 12. AAAD to advise DoE to transfer funds to the State via ACA and communicate it to Finance Department and AG - A&E through disbursement letter. (Refer Vol. II – Annex 15 for specimen disbursement letter from DoE, MoF)

Step 13. Finance Department shall validate the amount received based on comparison of daily position statement from RBI and the disbursement letter from DoE. In case of any discrepancy, the same shall be taken up with DoE for reconciliation. It shall record the transaction in register/system Line Department shall be informed about the disbursement

Figure 9: Flow Chart – Procedure for raising loans from GoI



Procedure – Disbursement of Loans from GoI

6.14 As per the terms and conditions of the loans, funding agencies release the sanctioned amount on a reimbursement basis. The procedure for availing reimbursement is laid out below and flowchart is shown in Figure 10:

Step 1. Concerned Departments shall submit reimbursement claim along with supporting documents, evidence of expenditure to AAAD with a copy to the Finance Department

Step 2. Finance Department shall track the records on drawal request for management of disbursements

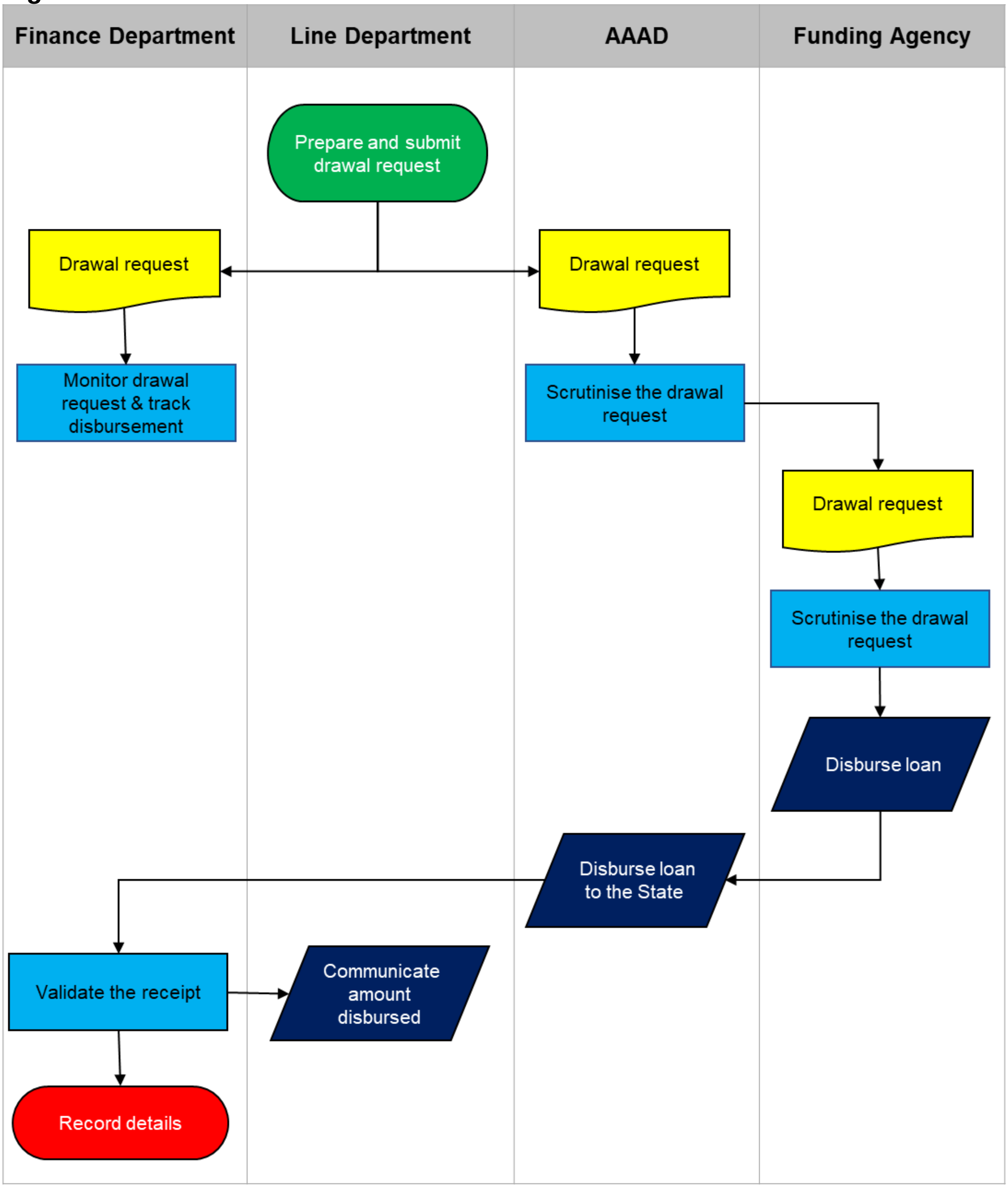
Step 3. AAAD to scrutinise the claim with respect to its eligibility, as per the loan agreement and forward the application to funding agency in a prescribed form

Step 4. Funding Agency to verify the drawal application and disburse the eligible amount as per the eligibility to GoI

Step 5. DoE to transfer the funds through inter Government Adjustment Advice to the State Consolidated Fund Account and intimate Finance Department and AG - A&E

Step 6. Finance Department shall validate the amount received based on comparison of daily position statement from RBI and the disbursement letter from DoE. In case of any discrepancy, the same shall be taken up with DoE for reconciliation. It shall record the transaction in register/system. Line Department shall be informed about the disbursement

Figure 10: Flow Chart – Procedure for disbursement of loans from GoI



Procedure – Servicing of Loans from GoI

6.15 The procedure for servicing of loans from GoI is presented below and flowchart is shown in Figure 11:

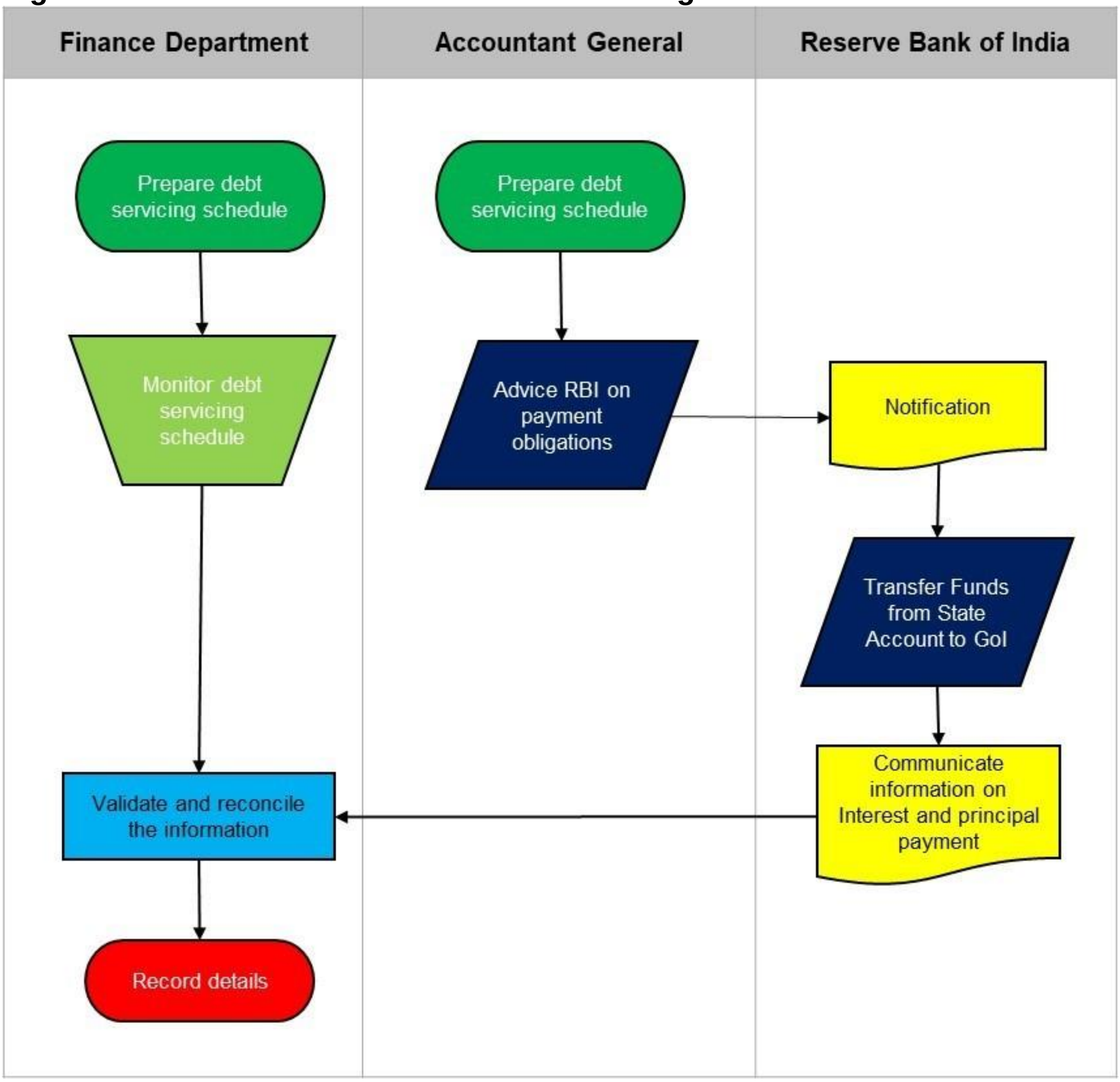
Step 1. Finance Department shall prepare the debt servicing schedule.
It shall monitor the debt servicing schedule for loans regularly for timely servicing of loans

Step 2. AG - A&E to advice RBI to transfer the interest and principal payable as per the due date (every month between June and March). AG- A&E to notify Finance Department the interest and principal payable at the beginning of the month

Step 3. RBI to transfer the funds from State Consolidated Fund Account to the GoI

Step 4. Finance Department shall validate and reconcile the amount through daily position reports from RBI. In case of any discrepancy, the same shall be taken up with AG - A&E and RBI for reconciliation. It shall also update the information in its register/system

Figure 11: Flow Chart – Procedure for servicing of loans from GoI



Loans from NSSF

6.16 National Savings Institute (NSI) under MoF, GoI has been involved with mobilization of resources from citizens through small saving schemes. Collections under various small saving schemes are deposited in National Small Saving Fund (NSSF), a Public Account established in 1999. All withdrawals by the depositors are made out of the Fund.

6.17 The net balance in the fund is transferred to the State as per the norms set by GoI. Following the 14th Finance Commission recommendation in 2015, State has discontinued borrowings from NSSF since 2016-17. Hence, only outstanding loans taken up to 2015-16 are being serviced now. Servicing of loans from NSSF is performed by RBI.

Characteristics

- Funding from NSSF through investment in Special State Government Securities issued by the State and are un-tied in nature
- Fixed interest rate determined by GoI from time to time
- Fixed tenure (25 and 10 years)
- Principal amount is to be paid in instalments:
    - For loans with 25 years tenure, Principal is repaid in 20 equal annual instalments, including five years of grace period.
    - For loans with 10 years tenure, Principal is repaid in 10 equal annual instalments
- Interest payment is annual, till maturity

Procedure – Raising loans from NSSF

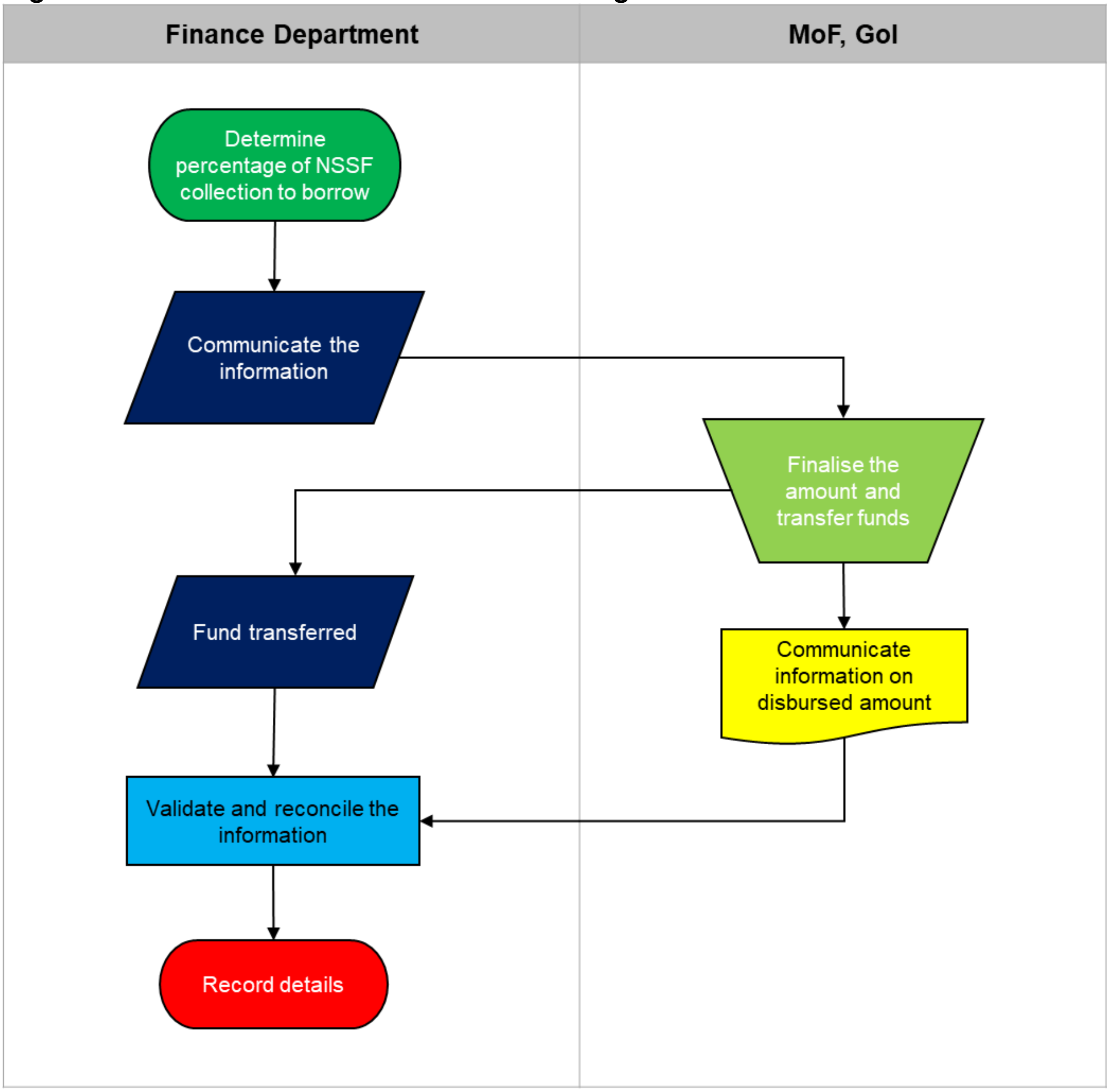
6.18 With effect from December 2011, minimum 50% of the net collections in the State are to be invested in special securities issued by the concerned State. The limit was subsequently raised to 100%. Thus, for raising loan from NSSF, the required amount shall be determined by the Finance Department. The procedure for raising loans from NSSF in case the State decides to borrow in future is laid down below and flowchart is shown in Figure 12:

Step 1. Finance Department shall determine the percentage of net balance of the collections received in NSSF of the State (as per the notification released by GoI from time to time) to borrow at the beginning of each FY

Step 2. MoF, GoI to transfer the amount based on agreed percentage to State Consolidated Fund Account and communicate it to Finance Department

Step 3. Finance Department shall validate the amount received. In case of any discrepancy, the same shall be taken up with MoF, GoI for reconciliation. It shall record the transaction in register/system

Figure 12: Flow Chart – Procedure for raising loans from NSSF



Procedure – Servicing loan from NSSF

6.19 The procedure for servicing of loans from NSSF is presented below and flowchart is shown in Figure 13:

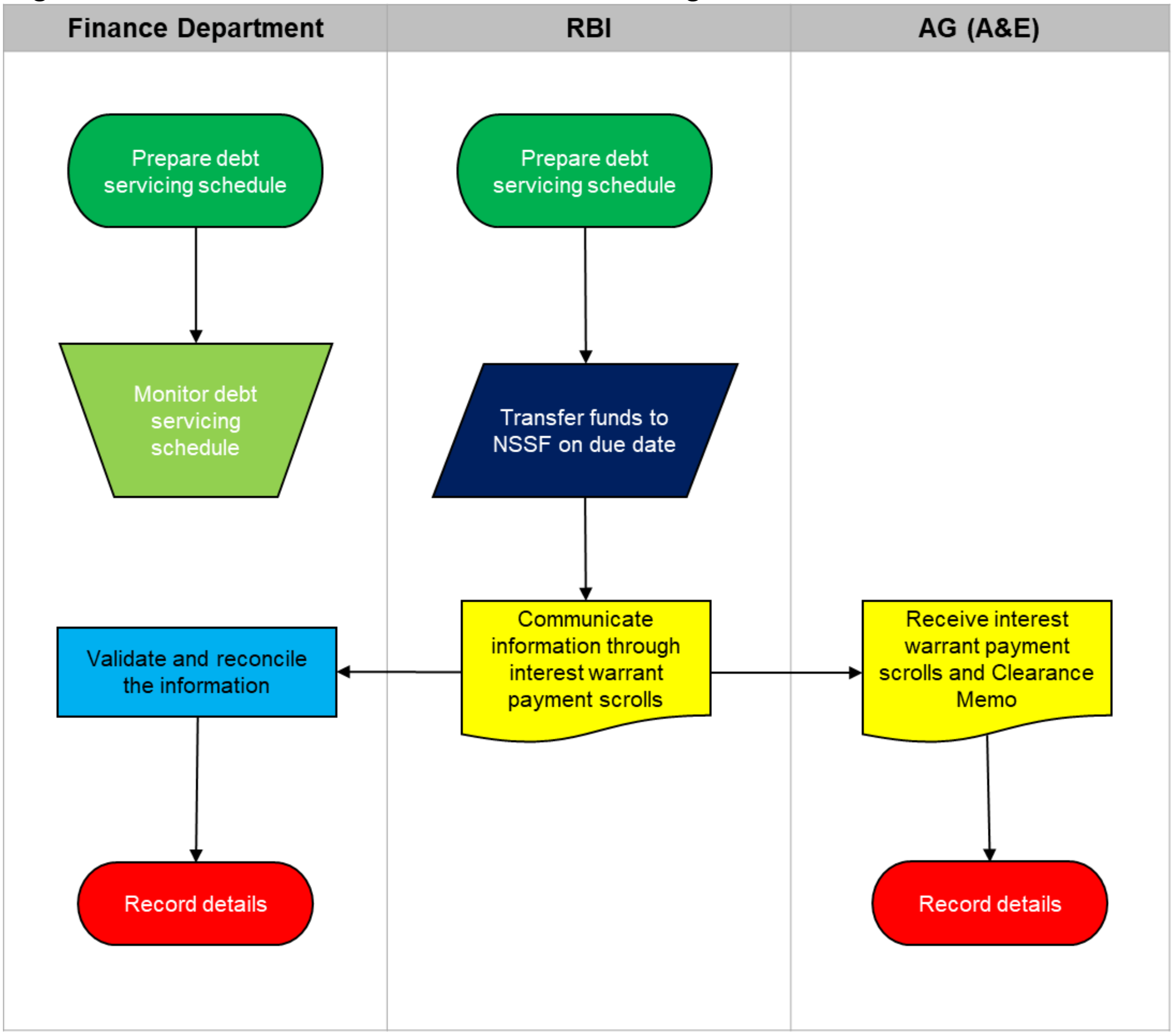
Step 1. Finance Department shall prepare the debt servicing schedule for the same.
Finance Department shall monitor the debt servicing schedule regularly such that it can timely arrange funds to meet its servicing obligations

Step 2. RBI to process the interest and principal payments as per the due date. It transfers the funds from State Consolidated Fund Account to GoI

Step 3. RBI to communicate the fund transfer details to State and AG (A&E) by sending interest warrant payment scrolls and Clearance Memo

Step 4. Finance Department shall validate and reconcile the information shared by RBI. In case of any discrepancy, the same shall be taken up with RBI for reconciliation. It shall also update the information in its register/system

Figure 13: Flow Chart – Procedure for servicing of loans from NSSF



Loans from NABARD

6.20 NABARD has been providing financial assistance to eligible institutions in the State, agriculture development, social sector development and improving rural connectivity under the Rural Infrastructure Development Fund (RIDF). RIDF was created in NABARD by the GoI during 1995-96.

Characteristics

- Tied loans issued only for eligible activities and institutions
- Reimbursement basis, depending on implementation progress
- Fixed interest rate determined by NABARD (1.50% below the Bank Rate)
- Fixed tenure of seven years
- Principal amount to be repaid in five equal instalments after two years of grace period from date of disbursement
- Interest payment is quarterly, till maturity

Eligible Institutions

- State Government
- State Owned Corporations
- Panchayat Raj institutions (PRIs)
- Non-Governmental Organisations (NGOs)
- Self Help Groups (SHGs)

6.21 RIDF funding may also be used for meeting the State Government's share of subsidy to the beneficiaries under different schemes of GoI/ State Government.

Eligible Activities

6.22 As on 31 October 2019, 37 activities are eligible for RIDF funding, which are classified under three broad categories:

(i) Agriculture and related sectors
(ii) Social sector
(iii) Rural connectivity

Loan Eligibility

6.23 The eligible loan amount is stipulated as a percentage of project cost of eligible activities classified under three broad categories, as below:

Category	Eligible Percentage of Project Cost	
	All States (other than NE/ Hilly States)	NE/ Hilly States
Agriculture & Related Sector	95%	95%
Social Sector	85%	90%

Category	Eligible Percentage of Project Cost	
	All States (other than NE/ Hilly States)	NE/ Hilly States
Rural Connectivity	80%	90%

Cost Escalation

6.24 State Government is required to meet cost escalation, if any, out of their own resources. However, if cost escalation arises for certain reasons, that are beyond the control of the State like (i) change in Schedule of Rates (SoR), (ii) Need based unforeseen changes in design, and (iii) Land acquisition cost due to judicial intervention (restricted to 60 % of the cost of land acquisition), the same may be considered. The proposal for cost escalation needs to be forwarded within 2 years from the date of sanction of loan to be eligible for consideration of additional loan.

Letter of Authority

6.25 All loans sanctioned by NABARD under RIDF are secured by the irrevocable letter of authority/ mandate executed by the State and registered with RBI/ Scheduled Commercial Bank, for repayment of the principal and/ or payment of interest to NABARD.

Invoking of the Mandate/Letter of Authority

6.26 In case the State defaults re-payment of any instalment of interest or principal by due date, NABARD may issue notice to the State. If repayment is not done within 15 days after receipt of such notice, NABARD may issue a requisition to the RBI/ Principal banker to the State for recovering the sums in default. Interest at the stipulated rate is payable by the State both on principal and interest overdues, till the realisation by NABARD.

High-Power Committee (HPC)

6.27 A High-Power Committee (HPC) is set up, which is headed by Chief Secretary along with officials from Finance Department, concerned line departments and NABARD. It is mandated to prioritise projects and make allocations among implementing departments.

Procedure – Raising Loans from NABARD

6.28 The detailed procedure for raising loan is laid down below and flowchart is shown in Figure 14:

Step 1. NABARD to communicate the normative annual allocation to Finance Department

Step 2. High-Power Committee (HPC) shall finalise the department-wise sanctions and disbursements limit for new and ongoing projects before the beginning of FY

Finance Department/concerned line Department shall ensure that provisions have been made for new projects in budget books

Step 3. Based on the sanctioned limit, concerned Line Departments shall prepare Detailed Project Report (DPR) and its outlay. Administrative Head of the Line Department shall approve the DPR. Send DPR to Finance Department for approval

Step 4. Finance Department shall scrutinise the DPR with respect to Financial Rules compliance (requisite approval from Technical Appraisal Committee (TAC), Expenditure Finalization Committee (EFC), Departmental Expenditure Committee, etc.)

Step 5. Finance Department, if satisfied, shall approve the eligible DPR and forward the proposal to NABARD

Step 6. NABARD to evaluate the documents and sanction the loan

Step 7. NABARD to communicate to the Finance Department through two copies of draft sanction letter. (Refer Vol. II – Annex 16 for specimen sanction letter for loans from NABARD)

Step 8. Finance Department shall verify and accept the terms and conditions. Duplicate copy of the sanction letter along with seal and signature of authorised signatory shall be sent to NABARD

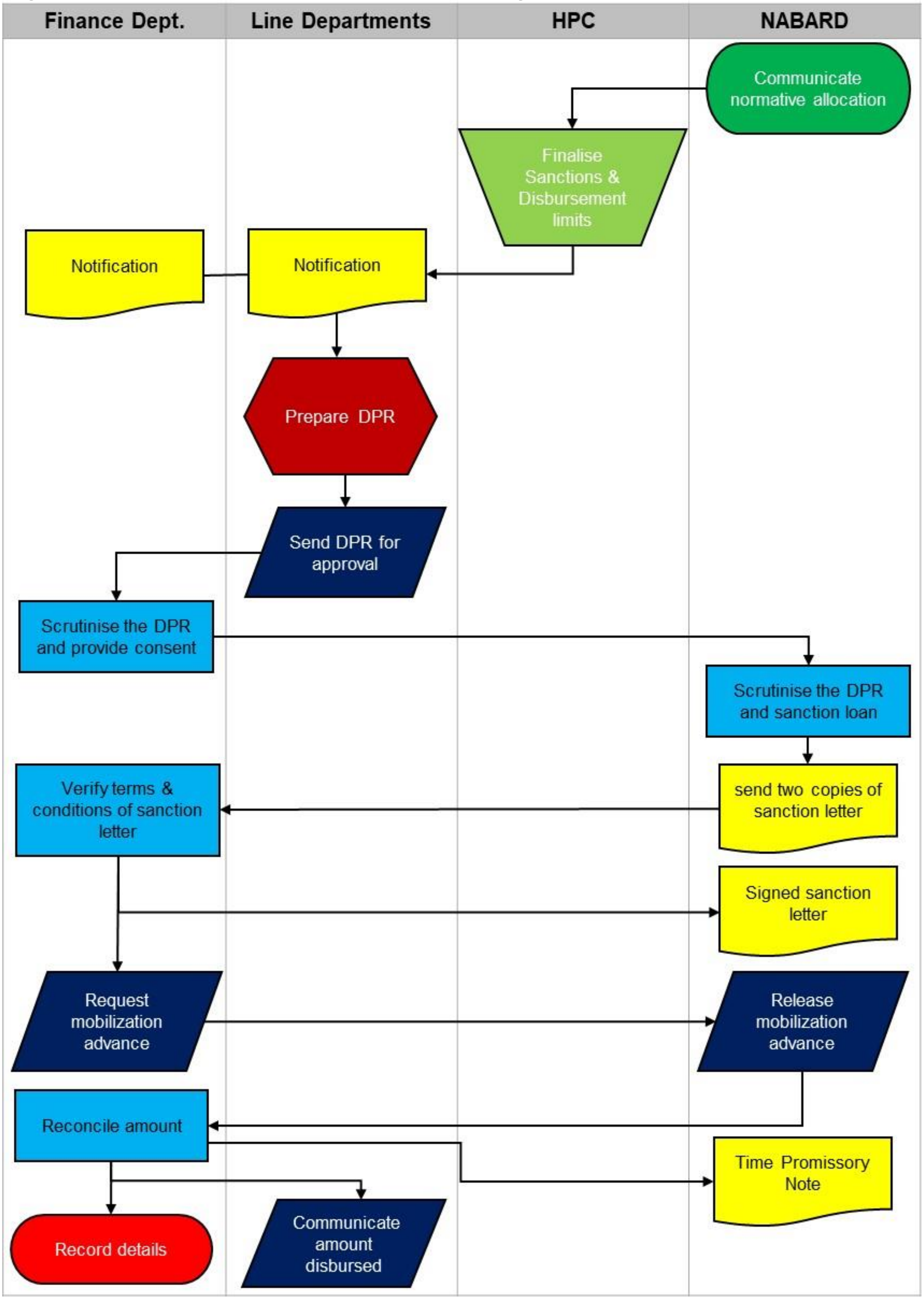
Step 9. Finance Department shall send request letter to NABARD for release of the mobilization advance (30% of sanctioned loan)

Step 10. NABARD to release the mobilization advance, accordingly

Step 11. Finance Department shall submit Time Promissory Note (TPN) in the prescribed format for each disbursement

Step 12. Finance Department shall reconcile and validate the amount of loan disbursed. In case of any discrepancy, the same shall be taken up with NABARD for reconciliation. It shall record the transaction in register/system.

Figure 14: Flow Chart – Procedure for raising loans from NABARD



Procedure – Disbursement of Loans from NABARD

6.29 NABARD to release the remaining sanctioned amount on a reimbursement basis and each such release will be considered as separate loan. All disbursements in a particular financial year are collectively classified as single tranche.

6.30 The procedures for availing the reimbursements are laid out below and flowchart is shown in Figure 15:

Step 1. Concerned Departments shall submit drawal application in prescribed format to NABARD with a copy to Finance Department containing details of physical and financial progress of projects

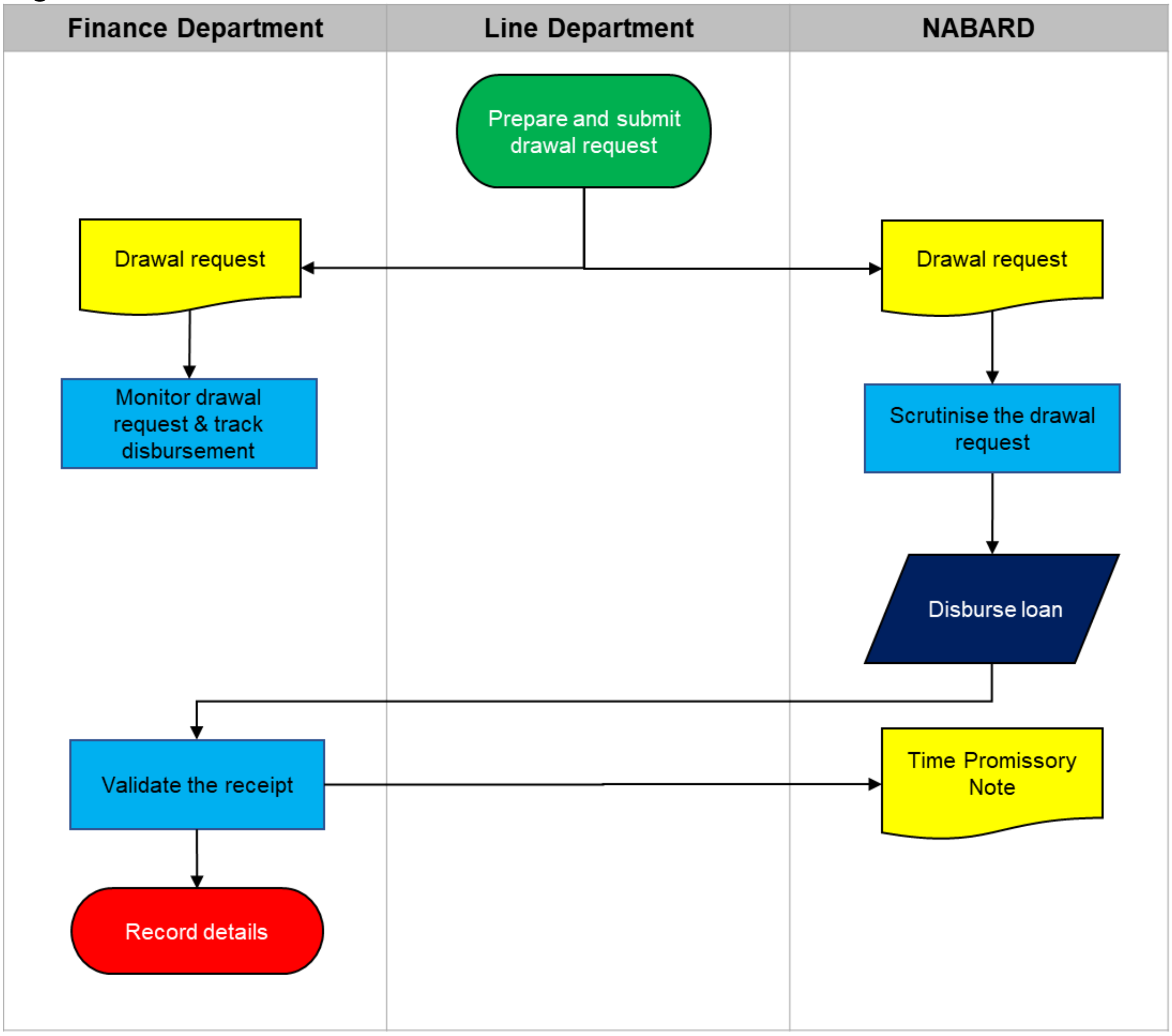
Finance Department shall track the records on drawal request for management of disbursements

Step 2. NABARD to verify the details and disburse the eligible amount as part of loan. This will continue till the completion of the projects/tranches. (Refer Vol. II – Annex 17 for specimen disbursement letter for loan from NABARD)

The concerned department shall complete the project within the time limit stipulated in sanction letter and submit Project Completion Certificate (PCC)/ Project Completion Report (PCR) to NABARD within given time frame. NABARD to evaluate the report and disburse the final reimbursement.

Step 3. Finance Department shall submit Time Promissory Note (TPN) in the prescribed format for each disbursement. It shall also reconcile and validate the amount of loan disbursed. In case of any discrepancy, the same shall be taken up with NABARD for reconciliation. It shall record the transaction in register/system

Figure 15: Flow Chart – Procedure for disbursement of loans from NABARD



Procedure – Servicing of Loans from NABARD

Interest Payment

6.31 The Finance Department shall make interest payments as below:

- At the end of each quarter starting from the date of disbursement of the loan
- On the first day of the month succeeding the quarter
- At the interest rate linked to Bank Rate at time of disbursement (1.5% below Bank Rate)

Principal Repayment

6.32 The Finance Department shall make principal repayment as below:

- In five equal annual instalments within seven years of disbursement date, including two years of grace period
- First instalment after 36 months from the disbursement date
- Instalments falling due on any date during a month, to be paid on the first day of the next month

6.33 The procedure for servicing of NABARD loans is as below and flowchart is shown in Figure 16:

Step 1. Finance Department shall prepare and monitor the interest payment and principal repayment schedule for timely servicing of the debt. (Refer Vol. II – Annex 18 for specimen debt servicing schedule prepared by NABARD)

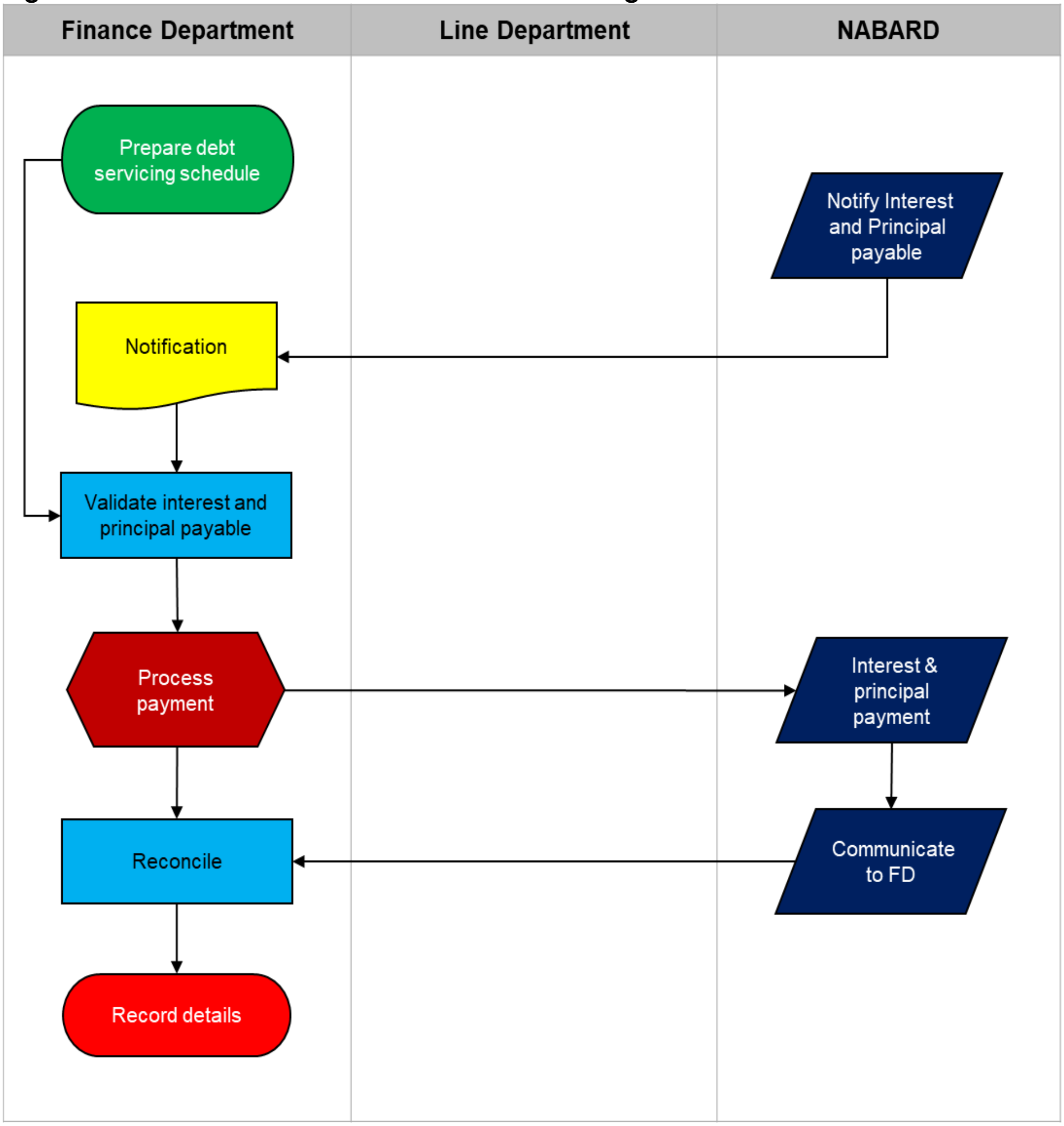
Step 2. NABARD to notify the Finance Department in advance about the amount of interest and principal payable

Step 3. Finance Department, on receipt of the request, shall validate the information with its own records

Step 4. The Finance Department shall process the payment following necessary authorization as per the financial rules and communicate it to NABARD

Step 5. Finance Department shall reconcile the amount to avoid any mismatch/error. In case of any discrepancy, the same shall be taken up with NABARD for reconciliation. It shall also update the information its register/system

Figure 16: Flow Chart – Procedure for servicing of loans from NABARD



Loans from NCDC

6.34 NCDC is a development financial institution set-up by an Act of Parliament in 1963, as a statutory Corporation under the Ministry of Agriculture & Farmers Welfare for the development of cooperative sector. NCDC lends to State Government on prescribed terms and conditions, for selected activities, to promote, strengthen and develop the cooperative sector.

Characteristics

- Tied loans
- Reimbursement basis
- Fixed interest rate determined by NCDC
- Fixed tenure majorly eight years
- Principal repayment
    - Annually in equal instalments
    - First disbursement – to be repaid in seven equal instalments with a moratorium of one year
    - Second disbursement onwards – to be repaid in eight equal instalments without any moratorium

      In other words, for any loan there is a moratorium of one year for the first disbursement only
- Interest payment is done annually

Procedure – Raising loan from NCDC

6.35 The procedure for raising loans from NCDC is as below and flowchart is shown in Figure 17:

Step 1. NCDC to communicate to Cooperative Department of the State about the eligible activities along with estimated allocations

Step 2. Based on the estimated allocation, Cooperative Department shall prepare the Detailed Project Report (DPR) including proposed outlay. Administrative Head of Cooperative Department shall approve the DPR. Send DPR to Finance Department for approval

Step 3. Finance Department shall scrutinise the DPR with respect to Financial Rules compliance (requisite approval from Technical Appraisal Committee (TAC), Expenditure Finalization Committee (EFC), Departmental Expenditure Committee, etc.

Step 4. Finance Department, if satisfied, shall approve the eligible DPR and intimate Cooperative Department

Step 5. Cooperative Department shall send DPR to NCDC

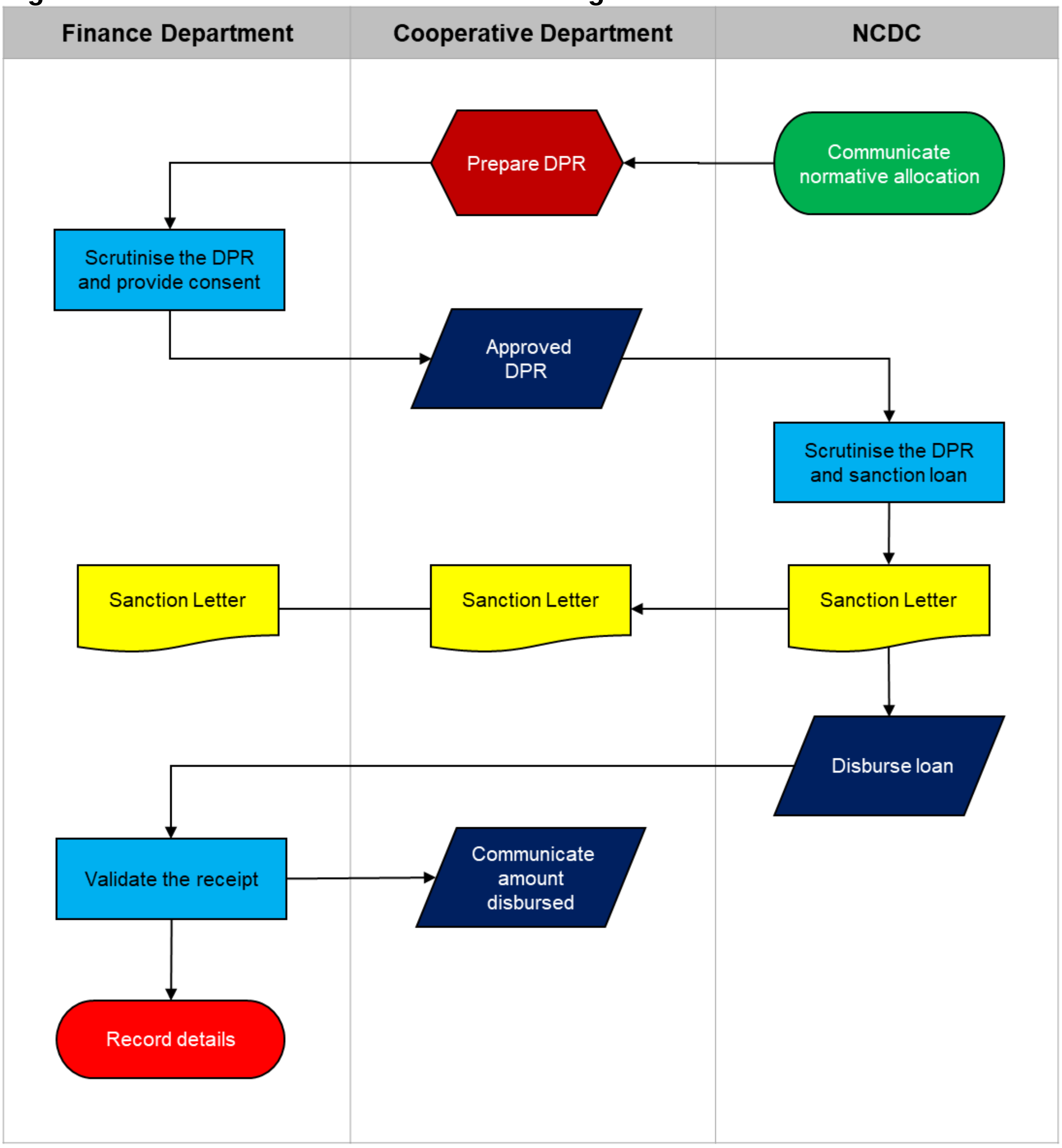
Step 6. NCDC to evaluate the documents and sanction the loan

Step 7. NCDC to send the sanction letter to Finance Department and Cooperative Department

Step 8. NCDC to transfer first instalment referred to as ways and means advance for eligible activities to the State Consolidated Fund Account

Step 9. Finance Department shall reconcile and validate the amount of loan disbursed. In case of any discrepancy, the same shall be taken up with NCDC for reconciliation. It shall record the transaction in register/system

Figure 17: Flow Chart – Procedure for raising loans from NCDC



Procedure – Disbursement of Loans

6.36 NCDC shall release the remaining sanctioned amount on a reimbursement basis and each such release shall be considered as separate loan. The procedures for availing the reimbursements are laid out below and flowchart is shown in Figure 18:

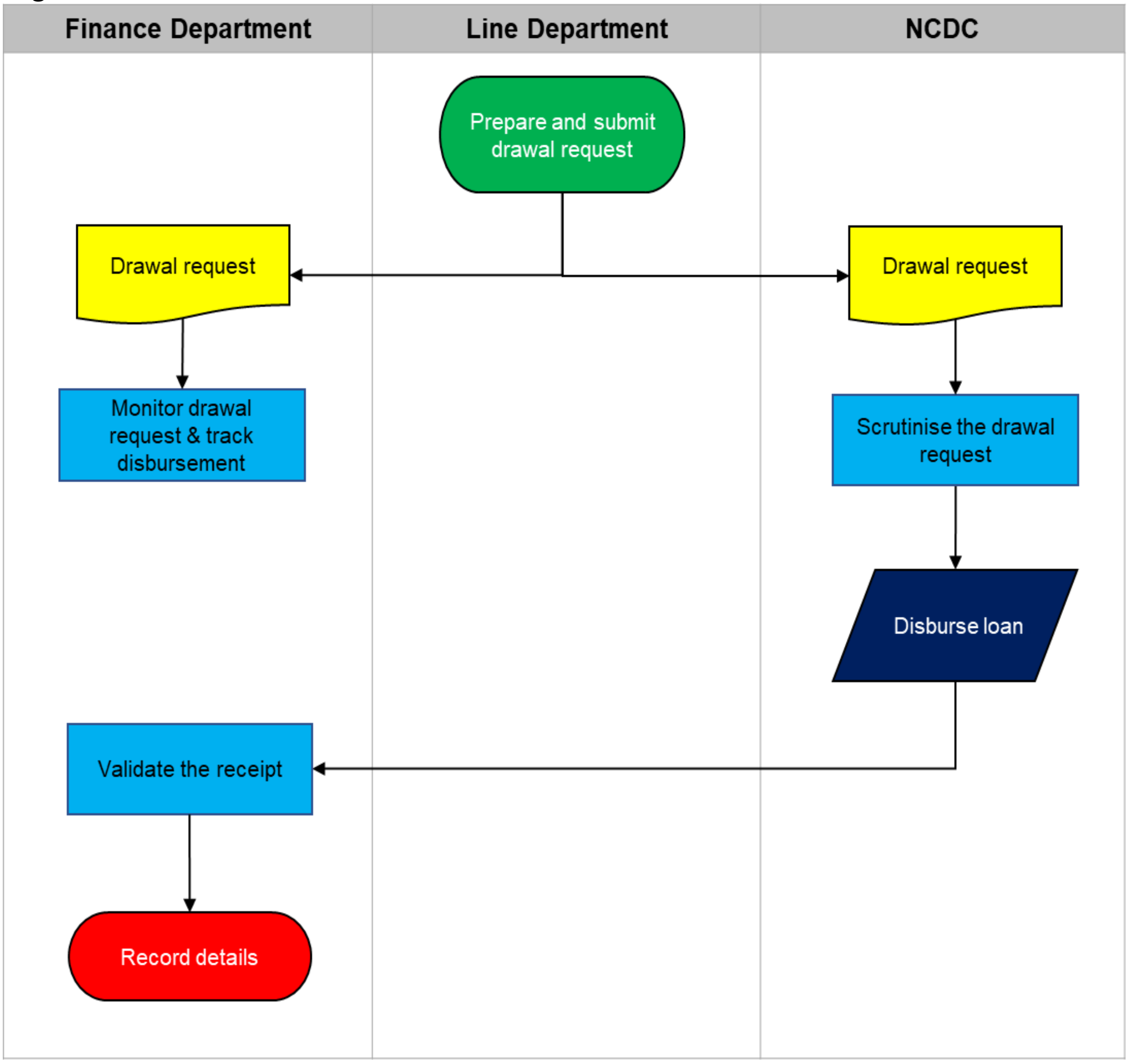
Step 1. Cooperative Department shall submit drawal application in prescribed format to NCDC with details of physical and financial progress of projects, with a copy to Finance Department

Finance Department shall track the records on drawal request for management of disbursements

Step 2. NCDC to verify the details and disburse the eligible amount as part of loan. (Refer Vol. II – Annex 19 for specimen disbursement letter)

Step 3. Finance Department shall reconcile and validate the amount of loan disbursed. In case of any discrepancy, the same shall be taken up with NCDC for reconciliation. It shall record the transaction in register/system

Figure 18: Flow Chart – Procedure for disbursement of loans from NCDC



Procedure – Servicing of Loans

6.37 The interest and principal payments for all the NCDC loans are to be made once in every year, currently 5 January is the due date. Finance Department shall be responsible for debt servicing of loans from NCDC.

6.38 The procedure for servicing of NCDC loans is as below and flowchart is shown in Figure 19:

Step 1. Finance Department shall prepare and monitor the interest payment and principal repayment schedule for timely servicing of the debt. (Refer Vol. II – Annex 20 for specimen debt servicing schedule prepared by NCDC)

Step 2. NCDC to notify the Cooperative and Finance Department in advance about the amount of interest and principal payable

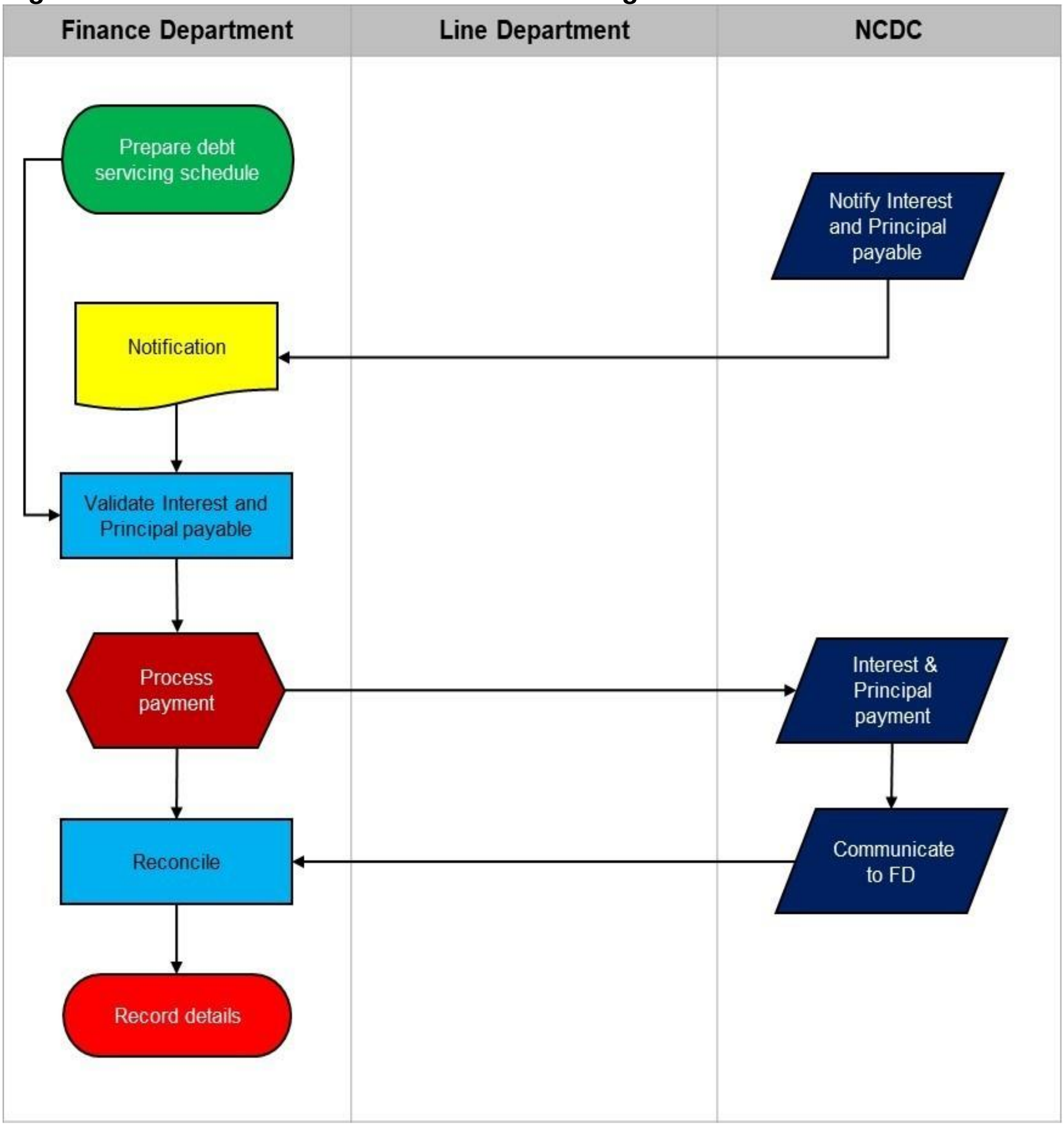
Step 3. Cooperative Department shall request the Finance Department to process the interest and principal repayment

Step 4. Finance Department, on receipt of the request, shall validate the information with its own records

Step 5. Finance Department shall process the payment following necessary authorization as per the financial rules and communicate it to NCDC

Step 6. Finance Department shall reconcile the amount to avoid any mismatch/error. In case of any discrepancy, the same shall be taken up with NCDC for reconciliation. It shall also update the information in its register/system

Figure 19: Flow Chart – Procedure for servicing of loans from NCDC



Summary

- Finance Department normally borrow from market, from GoI and various financial institutions (NABARD, NCDC)
- Market borrowings (SDL) are in the form of dated securities with fixed interest and tenure
- Loans from GoI are majorly block loan, used for funding EAP. Interest rate and tenure is determined by GoI
- Since April 2016, State is excluded from NSSF funding and only loan servicing is being carried out. Interest rate for existing NSSF loans is determined by GoI from time to time
- Loans from NABARD and NCDC are tied loans issued only for eligible activities. These loans are on reimbursement basis, depending on implementation progress

Chapter 7

Government Guarantees

7.1 The State may not always be in a position to provide budgetary support to Public Sector Undertakings (PSUs) and other government entities to meet the latter's fund requirements because of resource constraints. It, therefore, helps them in raising needed resources by providing its guarantees on their behalf to the lending institutions. Such resources are raised either by way of loans or through issue of debentures or bonds.

7.2 By providing guarantee to the lenders, the Government takes upon itself an obligation to repay the loan/ bonds/debentures and to pay interest thereon, in case of default by the principal borrower. Every guarantee creates an explicit contingent liability and is a fiscal risk to the Government. As a measure of prudence, therefore, the government fixes a limit within which it issues its guarantees. Guarantees are to be provided only for capital projects which shall be administered by its respective departments.

Eligible Institutions

7.3 Government provides guarantees only on behalf of the following State entities:

- Departmental Undertakings
- Public Sector Undertakings
- Local Authorities
- Statutory Boards and Corporations
- Cooperative institutions
- Other Authorities and Agencies under the Government

Ineligible Entities

7.4 The following are not eligible to get guarantees:

- Private Institutions or private companies
- Individuals

Uttarakhand Ceiling on Government Guarantee Act, 2016

7.5 The Act prescribes the limit for issuing of guarantees by the State Government on behalf of its Public Sector Undertakings, Local Bodies, Statutory Boards, Corporations, Cooperative Institutions, other Authorities and Agencies, to the lenders. For details of the Act, please refer to Chapter 3. The Government has fixed two types of ceilings on guarantees, which are laid down in the Act, viz., one, on the outstanding amount of guarantees, and the second, on the amount of fresh guarantees to be issued during the fiscal year.

7.6 The total outstanding guarantees as on the 1st day of the fiscal year should not exceed 1% of estimated GSDP for the year. The total fresh Government guarantees in a year should not exceed 0.3% of the estimated GSDP for the year.

7.7 The Government can exceed the above two limits only under extreme exigencies and natural calamities of the order which require Government to take immediate fiscal policy measures.

Guarantee Commission

7.8 As the Government undertakes risk of default, which is inherent in guarantees, it makes a minimum charge of 1% of the guarantee amount on the borrowing institution by way of guarantee commission. Depending on the default risk of the project the State may by notification, specify commission at enhanced rate. The guarantee commission charged shall form the corpus of Guarantee Redemption Fund. As per the Clause 5(1) of the Uttarakhand Ceiling on Government Guarantee Act, 2016, State cannot waive guarantee commission under any circumstances.

Guarantee Redemption Fund (GRF)

7.9 In order to meet the payment obligations arising out of the invocation of guarantees by the beneficiaries without disturbing the budgetary allocations, the State has set up a Guarantee Redemption Fund with an initial contribution of Rs.10 crore. The Fund is augmented each year by contribution from the Government of an amount equivalent to at least 1/5th of the outstanding invoked guarantees. The balance in the Fund is invested in GoI securities. Guarantee commission charged by the Government and interest on investment in the GoI securities further augment the balance in the Fund.

7.10 The Fund is administered by the RBI in accordance with the instructions issued by the State from time to time. The RBI realises interest on investments on due dates, redeems the securities on their maturities and reinvest them in GoI securities the amount to the account of the Fund. The RBI also undertakes to sell the securities in case of premature disinvestment to fulfil the obligation of invoked guarantees or any other reason indicated by the State and credit the proceeds to the Consolidated Fund.

Procedure – Issuing Government Guarantees

7.11 The procedure for issuing government guarantees is laid down below and flowchart is shown in Figure 20:

Step 1. Concerned PSUs/Corporations/Government Institutions to prepare the project proposal along with relevant documents for seeking Government guarantees. This proposal will be sent to concerned line department for its approval

Step 2. Concerned line department shall scrutinise the proposal before providing its consent. Administrative Department of the concerned line department shall verify the following:

- Lender (Bank(s)/Financial Institution(s)) have consented to provide loans to concerned entity
- The loan agreement and the guarantee application containing terms and conditions of the lending institution (which needs to be approved by the government) does not contain any clause(s) or condition(s) which are against the interest of the State
- The entity seeking Guarantee should have financial capacity, to service the debt such that the guarantee is not invoked
- Past financial performance of entity (on whose behalf the guarantee is to be issued) with respect to servicing of existing loan is satisfactory
- What are the challenges being faced by the borrowing entity in furnishing adequate collateral/ mortgaging its assets? The same status should be clearly mentioned in the application
- Generally, application for Government guarantee should not be sent if it is for the purpose of working capital. Only in special cases where the borrowing entity is unable to get loan for working capital against mortgage of its assets, can raise an application for seeking government guarantee. In such cases, working capital loan rejection letter from the funding entity should be appended with the application for seeking said guarantee
- The concerned Administrative Department should maintain guarantee register as per template prescribed by the Finance Department. The guarantee application form sent to the Finance Department should be accompanied with information on existing guarantees
- The above points should be included in the note being prepared for Cabinet approval for seeking fresh guarantee, apart from other relevant information

(Refer Vol. II – Annex 21 for Government of UP GO on Guarantees)

Post providing the consent, line department shall forward the proposal to Finance Department for approval.

Step 3. Finance Department shall scrutinise the proposal and provide its approval. It shall look into the following aspects before giving the consent:

- Examine whether line department has followed the prescribed procedure

- Examine whether the proposal is received from eligible entity
- Necessity of the guarantee
- Availability of alternative sources of funds
- Track record of the concerned entity
- Whether guarantee required by the entity is within limit stipulated in Uttarakhand Ceiling on Government Guarantee Act, 2016
- Credit history of the concerned entity (guarantees issued in the past and defaults)
- Examine proposal and audited financials of the concerned entity to ensure that the project is commercially and economically viable and is capable of generating income to take care of debt servicing
- Based on the above assessment, Finance Department shall advice entity to undertake credit rating
- Approvals from Secretary of concerned Department

After detailed examination, Finance Department, if satisfied, shall provide its consent and intimate the concerned line department.

Step 4. The concerned line department shall seek approval of Cabinet

Step 5. Cabinet to provide final approval for issuing guarantee

Step 6. Once all the approvals are in place, concerned line department shall share the draft Guarantee deed for validation by Finance Department

Step 7. Finance Department shall validate and provide its consent for issuance of guarantee, if satisfied. It shall maintain a register to record information on guarantees approved

Step 8. Line department shall finalise and issue the Guarantee Deed to concerned entity
(Refer Vol. II – Annex 22 for specimen Guarantee Deed issued by the line department)
Once the entity receives the guarantee, it shall submit the same to lender for loan sanction

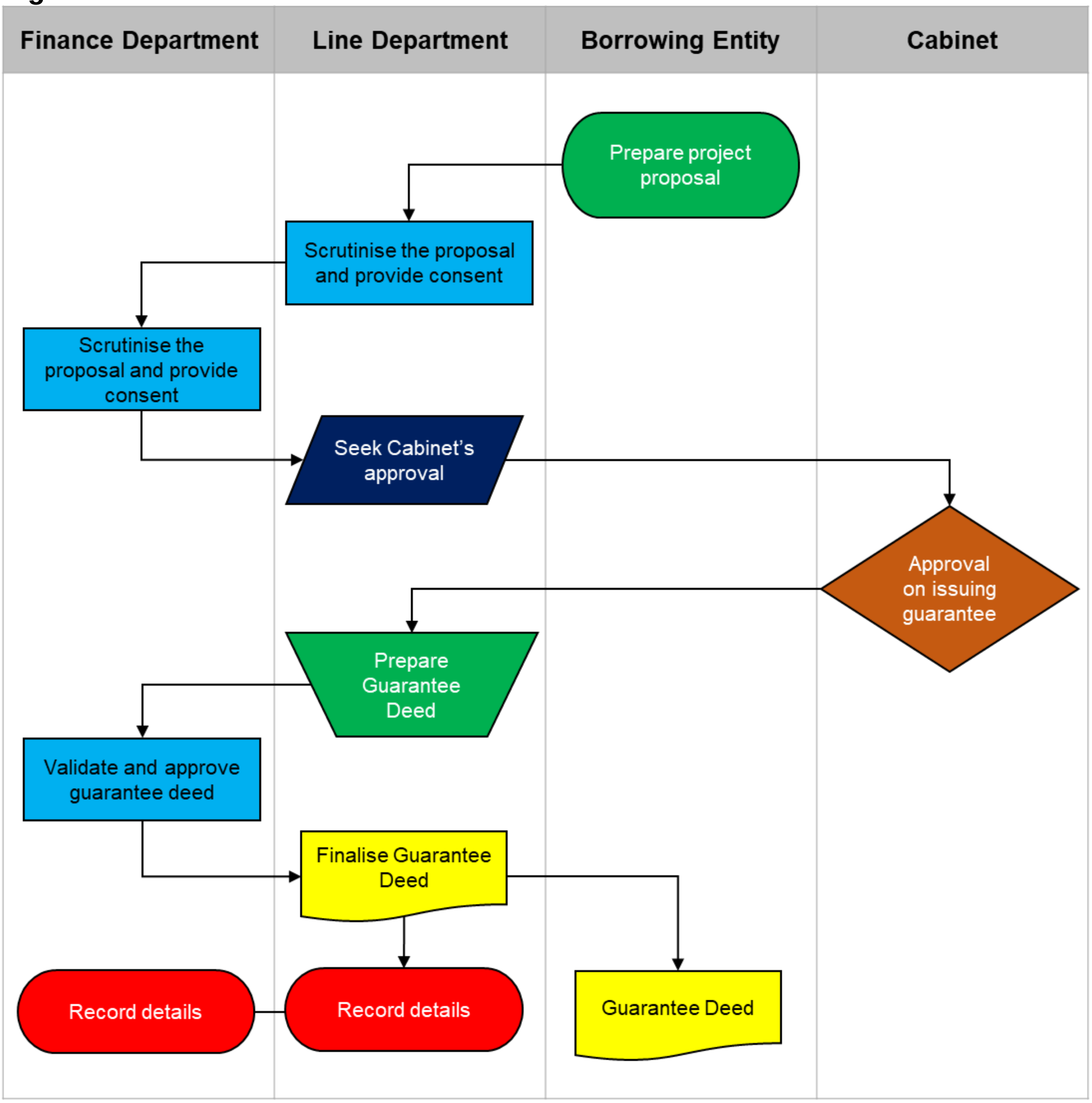
Step 9. Finance Department and line department shall record the information in their register/system in format prescribed under IGAS – 1. Please refer Vol. II - Table 7 under Template for various reports.

7.12 Finance Department shall periodically collect the guarantee commission. Line department shall pursue with the concerned entity for timely payment of guarantee commission. The guarantee commission may be recovered from the concerned entity on the whole amount of Guarantee in advance, soon after the Guarantee proposal is approved at the appropriate level but before issue of Government Order/ Resolution giving such Guarantee.

7.13 The concerned entity shall share the information on utilization of guarantees, payment of guarantee fee, etc., in prescribed format to Finance Department and concerned line department every quarter.

7.14 Finance Department shall carry out quarterly review of guarantees in order to ensure among other things, whether the entity is discharging its repayment obligations as per the terms and conditions of the Guarantee Deed and loan agreement or not.

Figure 20: Flow Chart – Procedure for issuance of Guarantee



Vacating the Guarantee

7.15 The orders for vacating the guarantee may be issued immediately on expiration of the said time limit or its utilization as per the terms and conditions prescribed in the Guarantee Deed. The line department shall issue necessary instructions to the entity (on whose behalf the guarantee was provided) and vacate the guarantee.

7.16 It is necessary for line department and Finance Department to vacate the guarantees and update the records accordingly in a timely manner, else it may result in undesired accumulation of outstanding guarantees in the Books.

Invocation of Guarantee

7.17 The default of payment is to be considered by the lender only after issuing the notice of default to the borrower and the guarantor (GoUk). In such a case, before invoking the guarantee, the lender shall notify the line department and Finance Department of the payment due.

7.18 The lender shall not enforce the guarantee contained against the State (Guarantor) unless it has exhausted all the rights and remedies available to it under the law for realising its dues (outstanding principal and interest).

7.19 If the lender fails to realise its dues even after utilizing all its remedies, the invocation of government guarantees must be immediately reported to the concerned line department and the Finance Department.

7.20 The State shall be liable to pay only the amount of principal, interest and other money due under the guarantee. It may also include all costs, charges and expenses which the lender may incur in realisation of the said loan.

7.21 In the event of invocation of guarantee, the secretary of the administrative department shall notify the finance department and send a request for settlement of the guarantee. The FD shall review the request and take up the case with cabinet along with the administrative department.

7.22 In the event of invocation of guarantee, the obligation may be discharged by sanctioning amount equal to the outstanding guarantee with requisite approval from the Cabinet and as per the prescribed Financial Rules. Payment of this obligation shall be charged to the Guarantee Redemption Fund maintained by the State.

Summary

- Due to the resource constraints, Government provides guarantees to lending institutions on behalf of PSUs and other government entities
- Guarantees creates an explicit contingent liability and is a fiscal risk to the Government.
- Uttarakhand Ceiling on Government Guarantee Act, 2016 prescribes total outstanding guarantees in a fiscal year should not exceed 1% of estimated GSDP for the year.

- Government shall collect minimum 1% of the guarantee amount as guarantee commission

Chapter – 8

Public Debt Management

8.1 Effective public debt management ensures that State's financing needs and payment obligations are met at minimum cost along with a prudent degree of risk. Managing public debt comprises of framing its objectives, developing a debt strategy and monitoring and analysis of various debt indicators.

8.2 This chapter shall assist Finance Department in formulating debt management strategy, carrying out various debt portfolio and risk analyses, assess debt sustainability and concept of debt restructuring.

Debt Management Strategy

8.3 Debt management strategy involves raising of the required funds for meeting requirements of the State at the lowest possible cost, consistent with a desirable degree of risk.

Medium Term Debt Strategy (MTDS):

8.4 According to International Monetary Fund (IMF), "MTDS is a plan that the government intends to implement over the medium-term in order to achieve a desired composition of the government debt portfolio, which captures the government's preferences with regard to the cost-risk trade-off". In case of a subnational/State Government, the primary focus of MTDS will be to help the State follow a methodical process to obtain low cost funding without reaching unsustainable levels of risk, in order to meet its fiscal obligations (commitments).

8.5 MTDS shall outline strategy based on certain assumptions and scenario analyses aimed at improving the debt management of the State.

Procedure for designing MTDS

8.6 The State shall adopt the following steps for designing an MTDS for the State.

Step 1. Define Objective and Scope of MTDS: The Finance Department shall formulate the objective and scope of MTDS

Step 2. Conduct Scenario Analysis: The Finance Department shall conduct a scenario analysis for determining future cost of borrowing along with various debt parameters. The Finance Department shall prepare a baseline scenario and alternate scenarios based on deviations from the baseline assumptions. Various steps in conducting the scenario analysis are:

(1) **Key assumptions:** The Finance Department shall make assumptions on various debt-related economic factors and shall estimate the scenario of debt on the basis of the assumptions. The key assumptions required are:

- The growth of GSDP, given the assumptions on price stability
- Estimates for revenue receipts and expenditure
- The targets of fiscal deficit (FD)
- The domestic inflation measured by consumer price index (CPI)

(2) **Baseline projections and analysis of debt sustainability indicators:** The information gathered on present stock of debt and the assumptions on the economic factors is the base for the Baseline scenario. The government shall make baseline projections on the GSDP growth, the gross and net borrowings and the debt sustainability indictors such as debt to GSDP, average time to maturity (ATM), weighted average interest cost, and repayments for the next three years. This is the Baseline Scenario and shall be conducted at a disaggregated level for different debt instruments separately for a clearer in-depth view of the scenario. A falling net market borrowing in the future years reflects positive impacts of fiscal consolidation efforts to gradually reduce the FD. In a similar manner, an increasing ATM situation indicates a more sustainable debt structure.

(3) **Scenario Analysis:** The government shall analyse various scenarios to ascertain that the present debt levels of the State are stable and sustainable over medium to long term. Therefore, it shall conduct scenario analysis of the future projected debt structure by altering for the macroeconomic factors.

Scenario 1: Supposing the GSDP growth slips below the baseline projection, it may lead to a slippage in the fiscal correction path that was envisaged in the baseline scenario. This may raise the debt to GSDP ratio and interest payment to GSDP ratio compared to the baseline scenario, thus worsening the debt sustainability situation.

Scenario 2: Supposing the GSDP growth levels are similar as in Scenario 1 and assuming a higher interest rate than the baseline scenario, it would adversely affect the fiscal deficit of the State. Such a scenario could have adverse effects on the debt portfolio due to cyclical effects of higher FD from lower revenues and increase in interest rates leading to increased borrowings in the future years and raising the debt to GSDP ratio in future years which is not sustainable.

Step 3. **Examine fiscal health:** The government shall examine and quantify the various kinds of risks for the baseline projections.

Step 4. **Debt portfolio benchmarking:** The government shall then examine the debt portfolio against the desired structure, that is, against the benchmarks such as share of short-term debt, average maturity of debt and issuance limits. The government shall also assess the credibility of alternate debt portfolio to enable a management decision for itself on choice of a balanced portfolio that minimizes costs and risks.

Step 5. **Develop an Action Plan:** The Finance Department shall devise an action plan contingent on the substitutability of cost and risk component. It can explore alternative strategies having various combinations of cost and risk, aligned with fiscal policies and for ensuring debt sustainability.

Step 6. **Finalise MTDS**: The government may develop and rank various scenarios/alternate MTDS, depending on the cost and risk factors. This shall be formalized, and a mandate shall be issued to implement the MTDS.

8.7 The MTDS framework will enable the Finance Department to view different debt scenarios based on the variation in the baseline indicators related to debt. This shall be reviewed annually with updated fiscal and economic indicators and its impact on debt sustainability of State.

Debt Portfolio Analysis

8.8 The stock of various instruments of borrowing that the government relies on is called the debt portfolio. The debt portfolio structure can have two-way implications for the economy.

- An untenable debt structure could impede growth and have a cascading effect leading to adverse effects on capital accumulation and makes the State vulnerable to crisis.
- In a vice-versa situation the government debt portfolio is vulnerable to the adverse fluctuations in macroeconomic variables.

8.9 These situations can emanate both an economic and fiscal crisis. Therefore, Finance Department shall monitor and analyse its debt composition and structure regularly to maintain it at a sustainable level. Certain basic macroeconomic and fiscal parameters that the government shall look into for debt analysis are listed below.

Table 2: Key Parameters Pertinent to Debt Management

Sl. No.	Indicator	Symbolic Representation	Interpretation
1.	Debt to Gross State Domestic Product (GSDP)	D/GSDP ↓	Debt to GSDP ratio compares the State debt to its produce, signifying the ability to pay back debt without incurring more debt in future. Higher value of GSDP indirectly indicates increase in output and receipts which would

Sl. No.	Indicator	Symbolic Representation	Interpretation
	Ratio		reflect in decreasing debt burden of State and improving debt serviceability
2.	Debt trend Analysis	D↓	Decreasing levels of outstanding debt and its growth over a period reflect in decrease in debt burden of State and improvement in debt sustainability
3.	Debt to Revenue Receipt Ratio	D/RR↓	Debt to revenue ratio indicates State's ability to manage its principal repayments. It should decrease over a period of time, indicating improvement in debt serviceability.
4.	Rate of growth of debt to GSDP Growth	DG-GSDPG < 0	For debt sustainability, the rate of growth of public debt should be lower than the growth of GSDP

8.10 Each source of debt instrument carries a varying degree of cost and risk and the State shall maintain a prudent debt portfolio. To better handle its debt profile, the State shall conduct a portfolio analysis which forms a powerful tool in shaping the present and future debt structure.

8.11 Ideally, the annual debt portfolio analysis/review is a precursor to the review of existing debt strategy, as it retrospectively analyses the successes, failures and departures from previously set benchmarks and the underlying causes, highlighting the required revision of the debt strategy.

8.12 While undertaking a portfolio analysis, the State shall study the diversity of the sources of debt in terms of outstanding amount under each instrument, its interest rate, maturity structure and associated risk. Certain basic indicators to carry out portfolio analysis are provided below:

Table 3: Interest Rate Indicators

Sl. No.	Indicators	Symbolic Representation	Interpretation
1	Average Interest Cost (AIC)	AIC↓	Product of outstanding amount and respective interest rates upon total outstanding debt for various debt types. Declining trend of AIC indicates declining debt servicing cost.
2.	Interest Payment (IP)/Revenue Receipt (RR)	IP/RR↓	The ratio indicates the portion of revenue receipts being utilised for servicing of debt. Declining levels of IP to RR ratio is

Sl. No.	Indicators	Symbolic Representation	Interpretation
			a good indicator for overall debt sustainability.
3.	Interest Payment (IP)/ Revenue Expenditure (RE).	IP/RE↓	It indicates the portion of expenditure incurred as interest payments. A lower ratio signifies less portion of expenditure being spent for debt servicing

Table 4: Maturity Profile Indicators

Sl. No.	Indicators	Symbolic Representation	Interpretation
1	Weighted Average Maturity (WAM) in years	WAM↑	Weighted average maturity/ average time to maturity of debt refers to an average number of years in which the total outstanding public debt would mature. Low WAM indicates large number of loans maturing in short-term, whereas, a relatively higher WAM implies lower share of debt maturing in short duration.
2.	Share of short-term debt (STD)/ total debt (D)	STD/D↓	Short-term debt refers to outstanding debt maturing in less than one year. Share of short-term debt should reduce so that average maturity profile may be elongated, and rollover risk can be minimised.

Associated Risks in Public Debt of State

8.13 At an overall level, the prominent risks associated with public debt include:

- **Market risk:** Market risks, in general, are those risks associated with the fluctuations in market prices and includes:
  - ***Interest rate risk:*** Changes in interest rate directly raise the debt servicing cost in fixed rate debt
  - ***Creditor-concentration risk:*** The creditor-concentration implies the investor profile/ownership pattern of the outstanding public debt in the State. A diversified long-term stable investor base develops a predictable regime for investment by various investors and minimizes creditor-concentration risk.
- **Rollover risk:** Debt rollover refers to refinancing of the debt when it is about to mature. The potential risks associated with rolling over a debt at unusually higher rate is larger and have longer term impacts. The rollover risk has implication beyond the risk due to the financial effects of higher interest rates translating into increases in government funding costs which could possibly

alarm a debt crisis and unsustainability. Higher proportions of short-term debt increase rollover risk.

- **Liquidity risk:** The risk of insufficiency of funds to meet the routine needs of the Government due to unanticipated cash flow obligations and the difficulty of the Government in raising cash through borrowing in short periods of time due to liquidity crunch in the market are referred to as liquidity risks.
- **Credit risk:** The risk of non-performance of borrowers arising due to a default in payment of interest on loans or repayment of loan amount by the due dates falls in the category of credit risks. The non-discharge of obligation under Government guarantees where the principal debtor fails to repay the debt or/and debt service cost also adds to the credit risks.
- **Operational risk:** Operational risks are wide-ranging which include the transaction errors at different stages of executing and recording, systemic risk, legal risk, political risk, security breaches, natural disasters, etc., that affect day-to-day financial transactions of the Government.

8.14 The State government shall identify, monitor and evaluate the key risks inherent in its debt portfolio so that it manages outstanding debt prudently. The different risk indicators that quantify various categories of risks are summarized below:

Table 5: Indicators for Measuring Risk in Public Debt Management

Sl. No.	Risk Type	Measures Used	Indicator	Description
1	Market Risk	Interest rate risk	Fixed rate debt/Floating rate debt	Low fixed rate to floating rate debt ratio indicates more exposure to potential interest rate risk
		Creditor-concentration risk	Ownership patterns for each of the debt buckets of State	Analyse investors' profile such as long-term or short-term, domestic and foreign, commercial and retail investor, etc. Preference should be given to long-term stable and diversified investor base for a predictable regime for investment.
2	Rollover Risk	Redemption Profile	Year-wise outstanding amount that government needs to pay	Several securities mature periodically, and government is obliged to pay the outstanding amount to the holder of the securities. The issuance and maturity of securities are required to be managed appropriately such that the outstanding amount should be evenly placed across the years.

Sl. No.	Risk Type	Measures Used	Indicator	Description
		Residual Maturity@	Residual Maturity = Maturity date – System date	Low residual maturity and weighted average maturity indicate large number of securities maturing in short-term and potential rollover risk and vice versa. High concentration of debt maturing within a year indicate major proportion of debt as short-term while a high concentration of outstanding debt in less than 10 years' maturity bucket can be attributed to higher medium to long term debt.
		Weighted Average Maturity#	Weighted Average Maturity = Weighted sum of maturity years with outstanding amount as weights	
		Short-term Debt	Proportion of short-term debt = debt maturing within a period of 12 months/Total outstanding amount	High short-term debt indicates high rollover risk as well as interest rate risk.
3	Credit Risk	Credit risk assessment	Various financial ratios of PSU/Government entity	Analysis of creditworthiness of a PSU/Government entity to evaluate its ability to honour its financial obligations.

Notes: @ - Number of years remaining for the maturity or expiration of the security;
- Weighted Average years that the total outstanding public debt would mature

Debt Sustainability Analysis

8.15 A debt situation is sustainable when the debt level is such that it can be serviced through future stream of revenues without hampering the productivity and solvency of the Government.

Procedure for Debt Sustainability Analysis

8.16 The State shall carry out an analysis of the debt sustainability by considering different parameters. The set of debt sustainability indicators along with the conditions as set out by Rajaraman, Bhide and Pattnaik, 2005[1] and RBI, 2014[2] consists of a combination of credit-worthiness indicators and liquidity indicators that

[1] Rajaraman, Indira, Shashank Bhide, and R. K. Pattnaik (2005), A Study of Debt Sustainability at State Level in India, Reserve Bank of India (RBI): Mumbai.
[2] Kaur et al. (2014) Debt Sustainability at the State Level in India, RBI Working Paper Series, Department of Economic and Policy Research, Reserve Bank of India, WPS (DEPR): 07/2014

computes rates of growth of debt, interest rate and income; the primary revenue balance; the debt redemption ratio; and the debt trap situation.

8.17 The different debt sustainability indicators that the Finance Department shall calculate, and their associated conditions and interpretations are listed in the table below.

Table 6: Debt Sustainability Indicators

Sl. No.	Indicators	Symbolic Representation	Interpretation
1	Rate of growth of public debt (D) should be lower than rate of growth of nominal GSDP (Y)	Y-D>0	Assess sustainability in aggregate terms and test the essential condition that growth of income must exceed the growth of debt and rate of interest
2	Real rate of interest (r) should be lower than real output growth (g)	g-r>0	
3	Primary deficit (PD) should not be rising faster than GSDP Primary balance should be in surplus	PD/GSDP<0	Assess sustainability from the revenue account. Primary deficit must be declining, and sufficient surplus must be generated to repay the debt stock. There should be positive primary revenue deficit
4	Primary revenue deficit (PRD) should be in surplus and adequate to meet the interest payments (IP)	PRD/GSDP>0 (PRD-IP)/GSDP>0	
5	Revenue receipts (RR) as per cent to GSDP should increase over time	RR/GSDP ↑↑	Increase in revenue receipts along with GSDP will increase debt servicing capability of State and reduce debt burden
6	Public debt (D) to revenue receipts ratio should decline over time	D/RR ↓↓	Either through increase in revenue receipts or decrease in total outstanding debt, debt burden shall decrease
7	Interest burden defined by interest payments (IP) as a per cent to GSDP should decline over time Interest payments (IP) as a per cent of revenue receipts (RR) should decline over time	IP/G ↓↓ IP/RR ↓↓	This indicator reflects the decreasing cost of debt as compared to GSDP over a period of time. Interest payment versus revenue receipts indicates the increase in revenue capacity of State to meet the

Sl. No.	Indicators	Symbolic Representation	Interpretation
			cost of borrowing
8	Ratio of debt redemption (repayments – principal and interest (REP)) to total debt receipts (total gross borrowings (TGB)) should be falling over time	REP/TGB ↓↓↓	High ratio of debt redemption is indicative of a smaller proportion of borrowed funds available for productive uses.
9	Interest payments (IP) and repayments (REP) adjusted for primary revenue deficit should not exceed total gross borrowings (TGB)	[(IP+REP-PRD)/TGB]<1	Measures the debt trap situations: TNB = TGB – Repayment of past loans
10	Total net borrowing (TNB) as a ratio of total gross borrowing (TGB) should be declining	TNB/TGB↓↓↓	

Real rate of interest = Effective interest rate adjusted to inflation, where effective interest rate represents current interest payments as a per cent of outstanding liabilities of State government in the previous year
Primary revenue deficit = Revenue deficit – interest payments

Debt Restructuring

8.18 Debt restructuring is a process that allows a government to renegotiate its debt with the lenders in order to improve its debt position. The restructuring of debt may be done by either balancing short/long-term debt; or elongating the maturity profile. State can carry out debt restructuring as per the GoI scheme on an ad-hoc basic and on certain terms and conditions.

8.19 There are two options to deal with high cost loans, one to pre-pay them and the second, to buy-back them from the market. For pre-payment or buy-back of high cost securities, State may write to RBI to conduct reverse auction to purchase the high cost securities from the market and then retire the securities. In this process, the outstanding debt will come down and also the interest pay-outs will be reduced. Another option to consolidate the debt is the conversion route, where the short-term debt are converted into long term debt. In this process, it could be done through mutual negotiation with the major investors.

8.20 GoI had formulated a Debt Swap Scheme in 2002-03 in view of the mounting burden of interest payments on the states, and to supplement their efforts towards fiscal management. The scheme capitalized on the low interest regime, to enable States to prepay expensive loans (contracted from GoI) by using low coupon bearing small savings and open market loans. However, the scheme was operational only till

2004-05. Therefore, the only other option available to the State is to buy-back some or all high cost loans from the market.

Summary

- Debt portfolio analysis includes evaluation of interest rate profile, maturity profile and identification of associated risk
- Debt sustainability analysis consists of a combination of various indicators to assess the debt servicing capacity of the State
- Debt management strategy involves design plan for raising required funds for meeting requirements of the State at the lowest possible cost, consistent with a prudent degree of risk

Chapter 9

Ways and Means Advance

9.1 The State maintains its Principal Deposit Account with RBI, into which, all its receipts (cash inflow) are credited, and from which, all its expenditures (cash outflow) are debited on a daily basis as and when these transactions take place. The bank account is expected to be in credit all the times with a certain minimum balance as provided for in the agreement signed between the State Government and the RBI. There could, however, be occasions when the balance in the account falls below the prescribed minimum or the balance in the account goes in the negative zone. Such situations arise when the government expenditure exceeds its receipts.

9.2 In order to meet such situations arising out of temporary mismatches in the cash flow of the government receipts and payments, the RBI has evolved a scheme which is called the Ways and Means Advances Scheme. This scheme provides financial accommodation to the State Government on a temporary basis for a certain limited period on specific terms and conditions. The limits of such accommodation and the terms and conditions thereof, are generally revised by the RBI every five years, based on the recommendations of an Advisory Committee constituted by the RBI for this purpose.

9.3 These limits were last revised by the RBI in February 2016. Though the RBI reviewed these limits in March 2018, based on the trends in the utilisation of WMA facilities, it was decided that the existing limits of WMA be retained till the review of the limits by the next Committee in 2020-21.

9.4 The various facilities which are provided by the RBI to the State Government under the Ways and Means Advances Scheme are as under and these can be availed of in the following order:

1. Special Drawing Facility (SDF)

i. SDF is the first facility which the State has to avail of from the RBI to meet the temporary mismatches in its cash flows. This facility is being provided with the collateral of State's investment in Government securities
ii. The State Government maintains CSF and GRF with the RBI as buffers for repayment of their liabilities. The balance in these Funds is invested in GoI dated securities and Auction Treasury Bills (ATBs). The SDF is provided against the collateral of these investments of the State, in addition to their investments in ATBs. All incremental investments in these Funds qualify for SDF without any limit

iii. Further, state may invest its durable cash balance in ATBs and GoI dated securities as a part of prudent cash management framework. Such investment is also eligible for availing SDF
iv. The SDF is thus a fully secured advance against the GoI securities
v. The rate of interest applied to SDF is the prevailing Repo rate minus one per cent for investment in ATBs/GoI dated securities and repo minus 2 per cent for availing SDF against incremental investment in CSF and GRF

2. Ways and Means Advances

i. The State's current WMA limit is Rs. 505 crore as recommended by the last Advisory Committee[3], which will be revised from time to time
ii. Interest shall be charged for all the days of availing WMA facility
iii. The interest rate for WMA will be equal to the prevailing Repo rate restricted up to a maximum of 90 days from the date of availing the advance
iv. In case WMA outstanding continues for more than 90 days from the date of such advance, a higher interest of Repo rate plus one per cent will be charged

3. Overdraft (OD) Facility

9.5 Overdraft (OD) facility is initiated when the advances to the State exceed their SDF and WMA limits. The OD facility provides that:

i. A State can be in overdraft for 14 consecutive working days. In case the overdraft continues in the State's account beyond 14 consecutive working days, the RBI and its agencies shall stop payments in respect of the State Government.
ii. If the overdraft exceeds 100 percent of the WMA limit for five consecutive working days for the first time in a financial year, the RBI will advise the State to bring down the overdraft level within the 100 per cent of WMA limit. If, however, such irregularity occurs on a second or subsequent occasion in the financial year, the RBI will stop payments notwithstanding clause (i) above, which permits the State overdraft up to 14 consecutive working days.
iii. State Government will not be allowed to be in overdraft for more than 36 working days in a quarter. If this is not adhered to, payments will be stopped, irrespective of clauses (i) and (ii) above.
iv. The rate of interest on OD up to 100 per cent of WMA limit is two percent above the Repo rate, and if OD exceeds 100 per cent of the WMA limit the rate of interest is five percent above the Repo rate

9.6 The Finance Department shall inform the Finance Secretary as soon as the State Government enters the overdraft zone and make all endeavours to clear the

[3] RBI (2015), Report of the Advisory Committee on Ways and Means Advances to State Governments, Reserve Bank of India (RBI)

overdraft at the earliest, to avoid payment of high rate of interest. It should, in any case, be ensured that the overdraft does not continue beyond the prescribed limits both in terms of the amount and the period, such that the RBI does not resort to stopping payments of the State Government.

9.7 The following table summarises the interest rate for WMA, SDF and OD facilities provided by RBI.

Table 7: Interest Rates on WMA, SDF and OD

Sl. No	Scheme	Days/Limit	Rate of Interest
1	SDF	-	Repo Rate minus 1% Repo rate minus 2% against incremental investment in CSF and GRF
2	WMA	Up to 90 days	Repo Rate
3	WMA	Above 90 days	Repo Rate plus 1%
4	OD	OD up to 100 per cent of WMA limit	Repo Rate plus 2%
5	OD	OD exceeding 100 per cent of the WMA limit	Repo Rate plus 5%

Investment of Surplus Funds

9.8 RBI, as banker to the Government, manages the surplus funds of the State. It automatically invests surplus funds (above the required minimum daily cash balance) of the State in 14 Day Intermediate Treasury Bills (ITBs) and rediscounts thereof in case of shortfall in the prescribed minimum cash balance.

9.9 The State can also advice RBI to participate in treasury bill auctions as non-competitive bidders for investment of their surplus funds.

Summary

- RBI provides SDF, WMA and overdraft facility to the State Government to meet the temporary mismatches in its cash flows.
- SDF is the first facility which the State has to avail of from the RBI. The balance in CSF and GRF is invested in GoI dated securities and ATBs. State also invest their surplus funds in ATBs through non-competitive bidding under primary auction of ATBs. The SDF is provided against the collateral of these investments of the State
- WMA provides financial accommodation to the State on a temporary basis for a certain limited period on specific terms and conditions
- Overdraft (OD) facility is initiated when the advances to the State exceed their SDF and WMA limits
- Surplus funds of the State are invested in 14 Day Intermediate Treasury Bills and rediscounts thereof in case of shortfall in the prescribed minimum cash balance

Chapter – 10

Debt Recording and Reporting Procedure

10.1 Recording and maintaining reliable data on borrowings of the State in a systematic manner is an essential requirement for efficient debt management. Information on public debt shall include record of all terms and conditions of borrowing instruments along with transactional level data on loan disbursements, interest and principal repayments. Availability of reliable and comprehensive information shall assist State in conducting debt analysis accurately.

10.2 This chapter elaborates the procedure of recording data on various borrowing instruments and enumerates MIS reports required by the State.

10.3 Procedures for creation of a reliable debt data set involves the following steps:

Data sourcing and validation

10.4 The foremost aspect in preparing a debt data set involves sourcing of the debt data from different stakeholders in a systematic manner. The steps to capture data from different stakeholders and its validation include the following:

- Listing of sources of debt
- Listing of data sources
- Form of data availability for each of the debt source (manual/digital)
- Format for debt information gathering in excel or through other specific software
- Data validation through manual simple sanity checks and running pre-defined rules
- Seeking clarifications from respective stakeholders on data discrepancies
- Correction of data as per clarifications provided by the respective stakeholders
- Sanitized data

Recording

10.5 Comprehensive data on all the borrowings assists State in generating accurate reports and carrying out analyses. Debt recording shall involve entering following details in the system:

- The loan title, borrower, lender, amount, purpose, sector, conditions attached, other parties, etc., from the loan agreement
- The terms of loan, including effective date, maturity date, conditions preceding effectiveness, disbursement pattern, commitment fees, interest rate, other

fees, repayment profile, repayment conditions, other loan development details, moratorium, etc., from loan agreement

- Records of transaction level data on loan disbursements
- Records of transaction level data on debt servicing
- Macroeconomic variables relevant for debt analysis

10.6 Data sourced from various stakeholders shall be populated in a format/form to facilitate the following:

- Basic debt indicators for portfolio analysis
- Instrument-wise repository of terms and conditions of loans
- Debt servicing schedule for various instruments
- Accurate breakdown of the outstanding debt by various characteristics:
  - Source-wise
  - Maturity-wise
  - Interest-rate wise etc.
- Support day-to-day debt operations/functions

MIS Reporting and analysis

10.7 The reporting and analysis of the data should be focussed on the requirements of the State for debt management. The following MIS reports shall be generated for analysis:

- Specific reports required for budget documents
- Basic debt indicators for examining debt sustainability
- Debt servicing schedule at aggregate and for individual loans
- Aggregate outstanding debt
- Summary reports showing basic details of individual loans or group of loans based on different selection criteria such as time period, maturities, interest rate for different types of debt

10.8 List of various reports that shall be generated are as follows:

Table 8: List of Key Debt Reports

S. No	Key reports	Frequency	Prepared by	Approved by
1	**Borrowing calendar** 1.1 Monthly borrowing calendar 1.2 Week-wise Quarterly borrowing calendar	Annual and quarterly		Secretary, Finance
2	**Public debt portfolio**	Annual		Secretary, Finance
3	**Various loans** 3.1 Market borrowing (SDL)	Annual, monthly and periodically (as per		Secretary, Finance

S. No	Key reports	Frequency	Prepared by	Approved by
	3.2 Loans from GoI 3.3 Loans from NSSF 3.4 Loans from NABARD 3.5 Loans from NCDC	disbursement/maturity or loan)		
4	**Debt servicing reports** 4.1 Market borrowing (SDL) 4.2 Loans from GoI 4.3 Loans from NSSF 4.4 Loans from NABARD 4.5 Loans from NCDC	Annual, monthly and periodically (as per interest and principal repayment)		Secretary, Finance
5	**Various Analytical reports** 5.1 Interest rate profile 5.2 Maturity profile 5.3 Debt sustainability indicators	Annual and monthly		Secretary, Finance
6	**Other Liabilities**	Annual		Secretary, Finance
7	**Guarantees**	Annual, monthly and periodically (as per issuance of guarantees)		Secretary, Finance
8	**Loans and Advances to various government entities**	Annual, monthly and periodically (as per loan disbursement)		Secretary, Finance

10.9 The templates for the above reports have been provided in the Vol. II of the Manual under 'Templates for Various Reports'.

Monitoring

10.10 State shall monitor the different debt parameters and debt sustainability based on the generated reports, for effective management of debt. In this regard, Finance Department shall carry out following activities periodically:

- Monitoring of interest and principal payments due as per terms and conditions of loan agreement
- Monitoring of receipt of loan amount as per the loan agreement
- Reconciliation and validation of receipts of loans from financial institutions and follow-up with concerned lenders in case of discrepancies
- Monitoring parameters such as Weighted Average Interest Cost, Interest Payment /Revenue Receipt, Interest Payment/Revenue Expenditure, Maturity profile, etc.
- Debt sustainability analysis on a need basis

10.11 In order to carry out the aforementioned activities related to debt recording, the Finance Department shall use a Commonwealth Meridian – debt recording and management system. It is an integrated tool for debt recording, reporting, analysing and management. The application provides a multi-pronged approach through coverage on different types and categories of liabilities; loan and advances; and debt related financial instruments for the State, apart from supporting debt servicing.

10.12 AG (A&E) Uttarakhand is responsible for accounting transactions related to public debt and liabilities of the State. It also maintains parallel records of public debt data and annually publishes the debt information as part of Finance Accounts of the State. Finance Department may periodically reconcile its data with AG (A&E) to avoid any inconsistency.

Summary

- Procedure for creation of a reliable data set involves following steps:
  - Data sourcing and validation which includes sourcing of the debt data from different stakeholders in a systematic manner
  - Recording involves entering loan details in the system
  - MIS reporting and analysis include generating specific reports and carrying out necessary analysis for effective debt management
  - Monitoring of generated reports and debt parameters is required for managing debt sustainability

Chapter 11

Code of Conduct and Conflict of Interest

11.1 Code of conduct and conflict of interest in this Manual deal with set of standards for Officials involved with public debt management in the State. It generally refers norms to be adhered by Officials for ensuring independence and impartiality in performing debt management functions. This chapter lays emphasis on norms that the Officials should follow while managing debt to serve the State in best of public interest.

Code of conduct

11.2 Code of conduct also referred to as 'code of ethics' signifies the commitment to act with integrity. Ethical decision making is subject to the context and it requires wise use of one's judgement to evaluate situations and associated risks. In the context of the Manual, this refers to the commitment of the officers involved in debt management in the State, acting with integrity to live up to the trust of the people.

11.3 The conduct of officials has a direct effect on the reputation of the Government. Good reputation is earned by performing one's duties/responsibilities with competence, confidentiality, integrity and complying with the applicable laws and regulations on a continuing basis. The Officials have an obligation to the government/governmental agency that employs them, their profession, their co-workers, the lenders and to themselves to maintain highest standards of conduct and to encourage their peers to behave in a similar manner.

Competence:

1. Constantly strive to acquire an appropriate level of professional knowledge and skill in Public Finance.
2. Perform professional duties in good faith and in accordance with technical, legal and regulatory practices, as well as uphold the spirit of the law.

Confidentiality:

1. Maintain confidentiality of information acquired during service and disclose such information only when legally obligated to do so.
2. Refrain from using or appearing to use confidential information for unethical or illegal advantage personally or through third parties.

Integrity:

1. Practice honesty and accuracy in all dealings without engaging in any activity that would prejudice the ability to carry out professional responsibilities competently and fairly.

2. Refrain from abusing the financial systems and markets.
3. Disclose fully all relevant information that could reasonably be expected to influence the Government's dealings.
4. Avoid any conflict of interest or the appearance thereof

Conflict of Interest

11.4 Conflict of interest is a situation posing a risk when personal interests interfere or appear to interfere with the public interest. A conflict of interest situation in the Government creates inappropriateness and misconduct, which undermines the public trust and confidence in the Government. For this reason, the Government needs to identify the potential conflicts of interest and handle them effectively. Such instances may include

- **External commitments:** These include soliciting benefits from a third party for influencing a favourable decision towards them, engaging in outside activity substantial enough to raise questions about the ability to devote appropriate time and attention to assigned responsibilities, maintaining financial interest or relationship with a customer or lender or with a third party engaged with the Government.
- **Personal relationships:** Not to favour any relatives/friends/acquaintances of the officials while procuring goods and services, which could undermine Government's interest or confidence.
- **Receiving gifts or an item of value:** Accepting gifts may cause a sense of obligation which potentially undermines the objectivity of professional decisions and therefore may be perceived as a gift intended to corrupt the Officials.

11.5 To prevent conflict of interest, the Officials need to be vigilant and adopt appropriate behaviour in situations where the objectivity of their professional responsibilities and decisions may be impaired. In lieu of this, the Officials are liable for:

(A) **Disclosure of Conflicts:** The Official must make full and fair disclosure of all matters that could reasonably be expected to impair his/her independence and objectivity or interfere with respective duties to the State and any concerned stakeholder(s). He/she must ensure that such disclosures are prominent, delivered in plain language and effectively communicate the relevant information.

(B) **Priority of Transactions:** Investment transactions for stakeholders or lenders or Government must have priority over investment transactions in which an Official is the beneficial owner in his/her personal capacity.

(C) **Disclosing of Compensation/Benefits:** An Official must disclose to the Government or stakeholders, as appropriate, any compensation, consideration, or benefit received from or paid to others for the recommendation of certain products or services.

Summary

- Code of conduct refers to the commitment of the officers involved in debt management in the State, acting with integrity to live up to the trust of the people
- It requires performing one's duties/responsibilities with competence, confidentiality, integrity and complying with the applicable laws and regulations on a continuing basis
- A conflict of interest situation in the Government creates inappropriateness and misconduct which undermines the public trust and confidence in the Government
- To prevent conflict of interest, the Officials needs to be vigilant and adopt appropriate behaviour in situations where the objectivity of their professional responsibilities and decisions may be impaired

Miscellaneous Chapter

Other Liabilities (Public Account)

All public money (other than the funds received under Consolidated Fund) received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account.

Public Account of the State includes small savings, provident funds, reserve funds, advances and deposits. The net balance in the public account at the end of FY is treated as borrowings of the State as it represents obligation of Government to repay.

The fund flow process related to Provident Fund deposits and interest payment is provided below and flowchart is shown in Figure 21:

Step 1. Eligible State Government employees across various line departments to deposit funds in Provident Fund every month as per the State GPF Rules

Step 2. State Government employees shall withdraw funds from Provident Fund as per their entitlements and State GPF Rules

Step 3. The net balance in Provident Fund is part of State's Public Account and is treated as Other Liabilities

Step 4. At the end of FY, respective line departments shall initiate the process for repayment of interest according to the rates notified by GoI from time to time

Step 5. Line departments shall forward the request to Finance Department for its consent

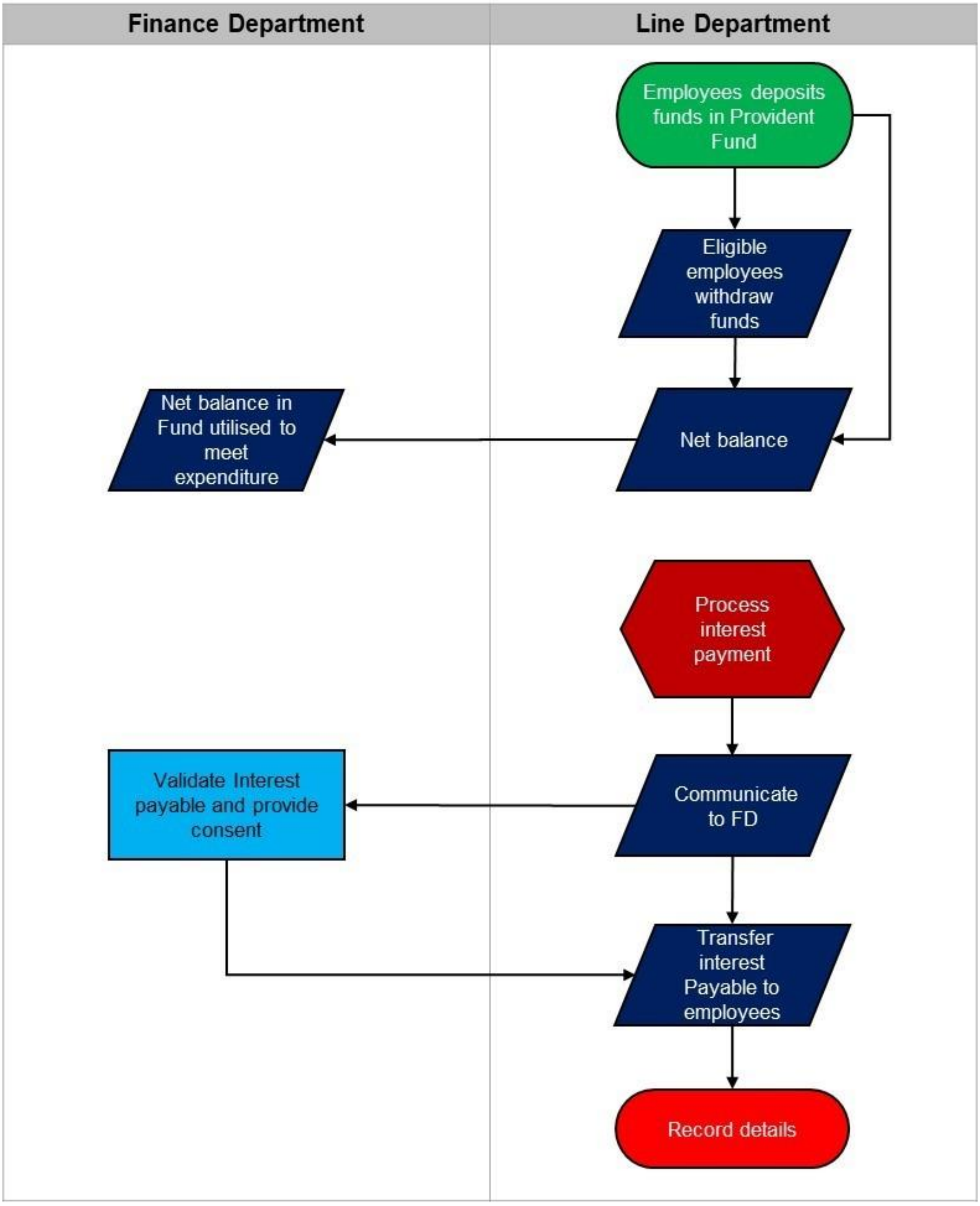
Step 6. Finance Department shall scrutinise the payment request and provide its consent

Step 7. Once the consent is received, line department shall transfer the interest payments to employees as per the State Financial Rules

Step 8. Line departments shall record the information in its register/system accordingly

The fund flow process with respective to advances and deposits in public account is similar to the process for Provident Fund. However, the deposits are made by various entities and individuals other than State Government employees.

Figure 21: Flow Chart – Provident Fund process flow



Annexure

Reform Initiatives

GoUk aims to streamline its debt management operations going forward, which necessitates further strengthening of its governance, institutional and functional capabilities with respect to debt management. This section of the Manual provides recommendations/suggestions as a road map to enhance efficiency in debt management of the State.

Strengthening Debt and Cash Management Functions

Debt and Cash Management Cell (DCMC) has been established in 2019 within the Budget Directorate, Finance Department with an objective of consolidating all the debt and cash management functions of the State. This Cell shall form the Back Office for carrying out debt management operations including recording, reporting, analysis of various loans and servicing of debt. Broadly, the Debt and Cash Management cell is expected to support Finance Department on following:

- Assessment of borrowing requirements
- Preparation of borrowing calendar
- Identification of sources of borrowing
- Determining tenure of loans
- Any other matter related to public debt management in the State

In addition to these aspects, State needs to formalise the Finance Department's structure and functions to strengthen its operational capacity. Indicative institutional structure for debt management functions in the State is provided below:

Structure and Functions

The institutional structure for debt management in the State can be broadly classified into following categories:

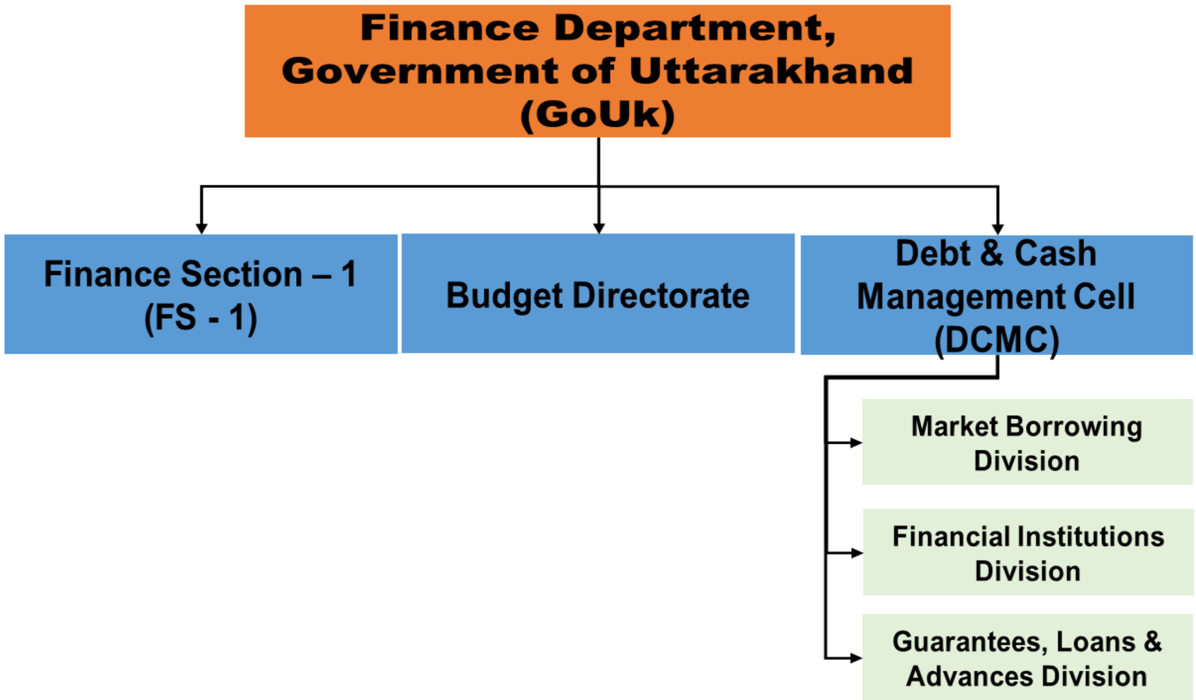
I. **Front and Middle Office** – The front office acts as a controlling/coordinating unit and is responsible for raising new loans as per the laws and rules. The middle-office is usually mandated with the tasks of formulating the overall debt management strategy, monitoring risks and ensuring that the front and back-office operations comply with the imposed limits and controls.

   With regard to debt management, the Front and Middle Office functions may be merged and carried out by the **Finance Section – I (FS-1)** in the Finance Department. It shall assist in effective distribution of work and ensuring division of duties with respect to loan negotiating and contracting on one hand, and settling and recording the transactions, on the other.

II. **Back Office** – The back office will involve administrative and analytical role, including handling the settlement of transactions and maintaining financial data. It will be responsible for monitoring and analysing debt portfolio, debt servicing and record keeping. **Debt and Cash Management Cell (DCMC)** may be assigned the functions of Back Office with respect to debt management. and some elements of Front Office work in coordination with FS-1.

Apart from FS-1 and DCMC, there are external stakeholders involved with debt management activities of the State.

The following schema presents the institutional structure for debt management in GoUk



Front and Middle Office functions

The Finance Section – I in the Finance Department, as the front and middle office may provide support in policy making on aspects related to public debt in the State. The major functions may cover:

- Supervise and finalise debt management strategy prepared by DCMC
- Finalise borrowing plan and calendar
- Negotiate loans and carry out contracting procedures
- Coordinate with various stakeholders involved in debt management
- Supervise various activities of DCMC

- Ensure timely publishing of Debt Statistical Bulletin
- Meet the borrowing requirement of the State in a timely manner

Back Office functions

As a Back Office, DCMC may be majorly responsible for debt recording, analysis, reporting, debt servicing and reconciliation. It will provide necessary support to Finance Department and FS-1 for effectively carrying out their responsibilities. It will also collect necessary information on loan utilization from Project Implementation Agencies, concerned Line Departments and government entities. It will carry out debt sustainability analysis and timely publication of the Debt Statistical Bulletin.

The role and responsibilities of DCMC may be distributed amongst the following three Divisions:

a) **Market Borrowing Division** – This Division will be responsible for managing market borrowings which include SDL, other types of bonds issued by the State and loans taken from NSSF. It will monitor the SDF, WMA and OD position of the State against the cash flow forecast and communicate information to Finance Department for taking necessary action.
b) **Financial Institutions Division** – This Division will manage loans taken from various financial institutions (NABARD, NCDC, etc.) and loans from GoI. It will also be responsible for monitoring loan utilization and debt servicing.
c) **Guarantees, Loans and Advances Division** – This Division will be responsible for managing government guarantees and loans and advances given to government entities, which include study and scrutiny of project proposal, its approval, recording data, and monitoring timely collection of guarantee fee, interest and principal repayment.

The major functions of Back Office are laid out below:

- Prepare debt management strategy, borrowing plan and calendar
- Record and maintain data on debt and guarantees
- Review DPR and project proposals sent by various line departments/PSUs seeking loan and guarantees
- Monitor disbursement of loans, reconcile and validate the amount with relevant stakeholders
- Track utilization of loans by various project implementing agencies and line departments
- Prepare debt servicing schedule as and when loan is taken
- Prepare periodic reports on status of public debt for higher authorities and provide relevant information to relevant stakeholders as and when required
- Regularly prepare and publish debt statistical bulletin
- Meet statutory and contractual reporting requirements of GoUk debt
- Store all original contracts and administrative records in a safe place

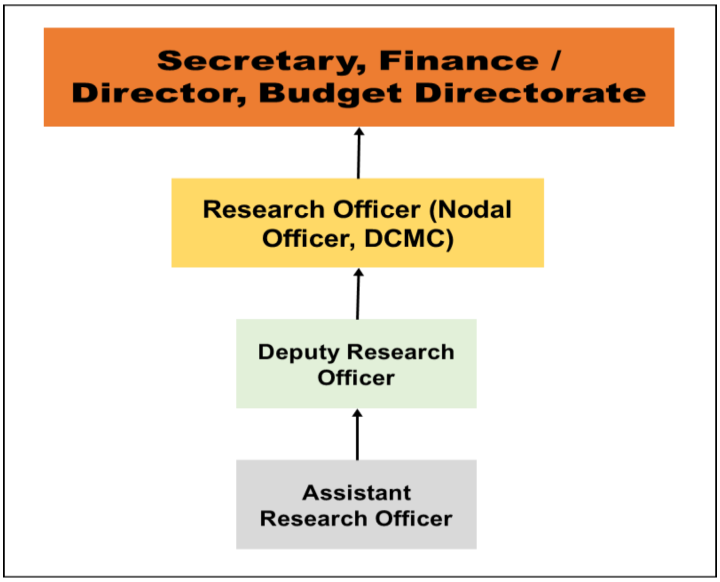
- Undertake Debt Sustainability Analysis (DSA) periodically to assess medium-term and long-term debt sustainability
- Monitor risk associated with debt portfolio
- Monitor developments in financial market, State and National economy

Cash Management Division: State should have a Cash Management Division for preparing cash-flow forecasts to support in meeting the liquidity requirements of the State on a timely basis. It will also ensure maintenance of required minimum balance in State's account with RBI, monitor and effectively use SDF, WMAs and OD schemes of RBI for managing short-term cash requirements. Further, it will manage cash surplus/shortfall by investing/discounting the treasury bills with assistance from RBI. This division will be part of the Back Office function.

Organizational structure of the DCMC

DCMC is part of Budget Directorate. Hence, it will be headed by Director, Budget who is also the Secretary (Finance). Director shall supervise all the activities undertaken by the DCMC with the assistance from Research Officer (RO), Deputy Research Officer (DRO) and Assistant Research Officer (ARO).

The following scheme presents the organizational structure of DCMC.



DCMC will be led by Research Officer who shall act as the Nodal Officer of the DCMC. RO will be overall responsible all the functions of DCMC and will report to Director, Budget. RO will review and approve the work done by DRO and ARO.

DRO and ARO will assist RO in performing his/her duties. DRO/ARO will initiate and perform all the functions of the DCMC as directed by RO. DRO/ARO will be responsible for recording data, preparing reports and carrying out the required analysis. DRO/ARO will carry out debt servicing functions and initiate the process for interest and principal payments in a time bound manner.

Desirable Skills:

DCMC should have qualified staff for efficiently performing the debt management functions. The desirable skills/expertise required are provided below:

- **Economist/ Public Finance / Debt Specialist** – Sound knowledge and understanding of processes of public debt management, public financial management and cash management; basic knowledge about financial markets and money market; and technical skills in finance and basic risk analysis, and portfolio management and relevant software applications for carrying out economic analysis.

- **Finance Analyst** – Working experience in financial markets especially Government securities and bond market; knowledge and understanding of macroeconomics and debt analyses, economic outlook and macro-economic trends, lead indicators and indices, fiscal parameters, financial markets and banking sector, RBI policies and relevant software applications for carrying out economic analysis.

- **Data Analyst** – Knowledge of data analytics; proficiency in conducting medium-term as well as long-term economic research and forecasting, studies; recording data and preparing analytical reports on relevant macroeconomic, public debt and policy issues; relevant debt instrument research, commodities research, and scenario planning and analyses; and relevant software applications for carrying out economic analysis

Debt and Cash Management Committee

The State may set up a Debt and Cash Management Committee (DMC) for governance, monitoring and control of debt management operations. It will be headed by Secretary (Finance) and shall include representatives from relevant stakeholders.

DMC shall broadly look into the following aspects:

- Assess requirement of net borrowings
- Ensure borrowings within specified limit
- Approve debt management strategy
- Review utilization of borrowed funds
- Carry out periodic review of debt portfolio, maturity and interest profile; and debt sustainability
- Review and monitor operational and other risks associated with debt management
- Review quarterly cash position and forecast along with cash management
- Monitor SDF, WMA and OD facilities
- Review issuance, utilization and closure of guarantees

- Review sanction, utilization and repayment of loans and advances given by the State
- Any other functions relevant to public debt management of the State

The composition of the DMC may be as follows:

- Chairman – Secretary (Finance)
- Member - Director, Budget
- Member – Secretary, Planning Department
- Member – Deputy Secretary (Finance) / Deputy Director, Budget
- Member – Representative from FS -1
- Member – Representative from Budget Directorate
- Member – Nodal Officer, DCMC
- Any other member as required by the DMC

The Committee shall meet at least once every quarter to review the overall progress of debt management activities, take decision on important aspects and discuss way forward. DMC shall be an advisory and governance committee which will provide recommendations for effective debt and cash management.

Government Guarantee Policy

GoUk issues guarantees to lender/financial institutions on behalf of PSUs/government entities in order to enable them to raise loans from financial institutions. The State gives guarantees to PSUs under the Uttarakhand Ceiling on Government Guarantees Act, 2016, within the limits prescribed in the Act.

Currently, the State does not have a guarantees policy in place. This section provides a brief outline on the indicative content, which the State can utilise for preparing the said policy.

I. Legal provisions relating to guarantees

The applicable legal provisions may be provided in this section. The relevant provisions in the Constitution of India, Guarantees Act of the State, redemption fund and reference to relevant Acts, Rules and GO shall be provided.

II. Objective of guarantees

The State shall mention the need for issuing guarantees and its objective

III. Procedure for issuing guarantees

The detailed procedures for issuing of guarantee is covered in the Manual under Chapter 6 – Government Guarantees

IV. Guarantee Fee

The Uttarakhand Ceiling on Government Guarantees Act, 2016 notified the details on levying the guarantees commission. The section may provide procedure and responsibilities of line department for timely collection of the guarantee commission.

V. **Procedure for vacating the guarantee**

This section may contain the process for vacating the guarantee. The State may clearly mention the specific time limit and validity in the guarantee deed while sanctioning the guarantee.

VI. **Invocation of guarantee**

This section may provide the approach to be followed in case there is invocation of a guarantee.

Loans and Advances

Loans and advances are financial assistance provided by competent authority of the State to Government companies, Public Sector Undertakings (PSUs), Local Bodies and other Authorities and Agencies under the Government.

The procedure for providing loans and advances to government entities is laid down below:

Step 1. Government entity to prepare the project proposal along with relevant documents for seeking loans/advances. This proposal will be sent to concerned line department for its approval

Step 2. Concerned line department shall scrutinise the proposal before providing its consent. Administrative Head of the Line Department shall approve the proposal. Once satisfied, line department shall forward the proposal to Finance Department for its consent

Step 3. Finance Department shall scrutinise the proposal and provide its approval. It shall look into the following aspects before giving the consent:

- Examine whether line department has followed the prescribed procedure
- Examine whether the proposal is received from eligible entity
- Necessity for providing loans
- Availability of alternative sources of funds
- Track record of the concerned entity
- Credit history of the concerned entity (loans and advances issued in the past and defaults)
- Examine proposal and audited financial results of the concerned entity to ensure that the project is commercially and economically viable and is capable of generating income to take care of debt servicing
- Approvals from Secretary of concerned Department

After detailed examination, Finance Department, if satisfied, shall provide its consent and intimate the line department.

Step 4. The concerned line department shall seek approval of Cabinet

Step 5. Cabinet to provide final approval for sanctioning loan

Step 6. Once all the approvals are in place, concerned line department shall finalise the terms and conditions of the loan agreement with the borrowing entity and share the draft sanction letter for validation by Finance Department

Step 7. Finance Department shall validate and provide its consent for issuance of sanction letter, if satisfied. It shall intimate line department accordingly.

Step 8. Line department shall issue the loan sanction letter to concerned entity

Step 9. Finance Department shall disburse the loan to line department in accordance to terms and conditions of the sanction letter

Step 10. Line department shall transfer the funds to entity accordingly.

Step 11. Finance and line department shall record the information in their register/system in format prescribed under IGAS – 3. Please refer Vol. II - Table 8 under Template for various report. It shall maintain a register to record information on loans and advances sanctioned by the State

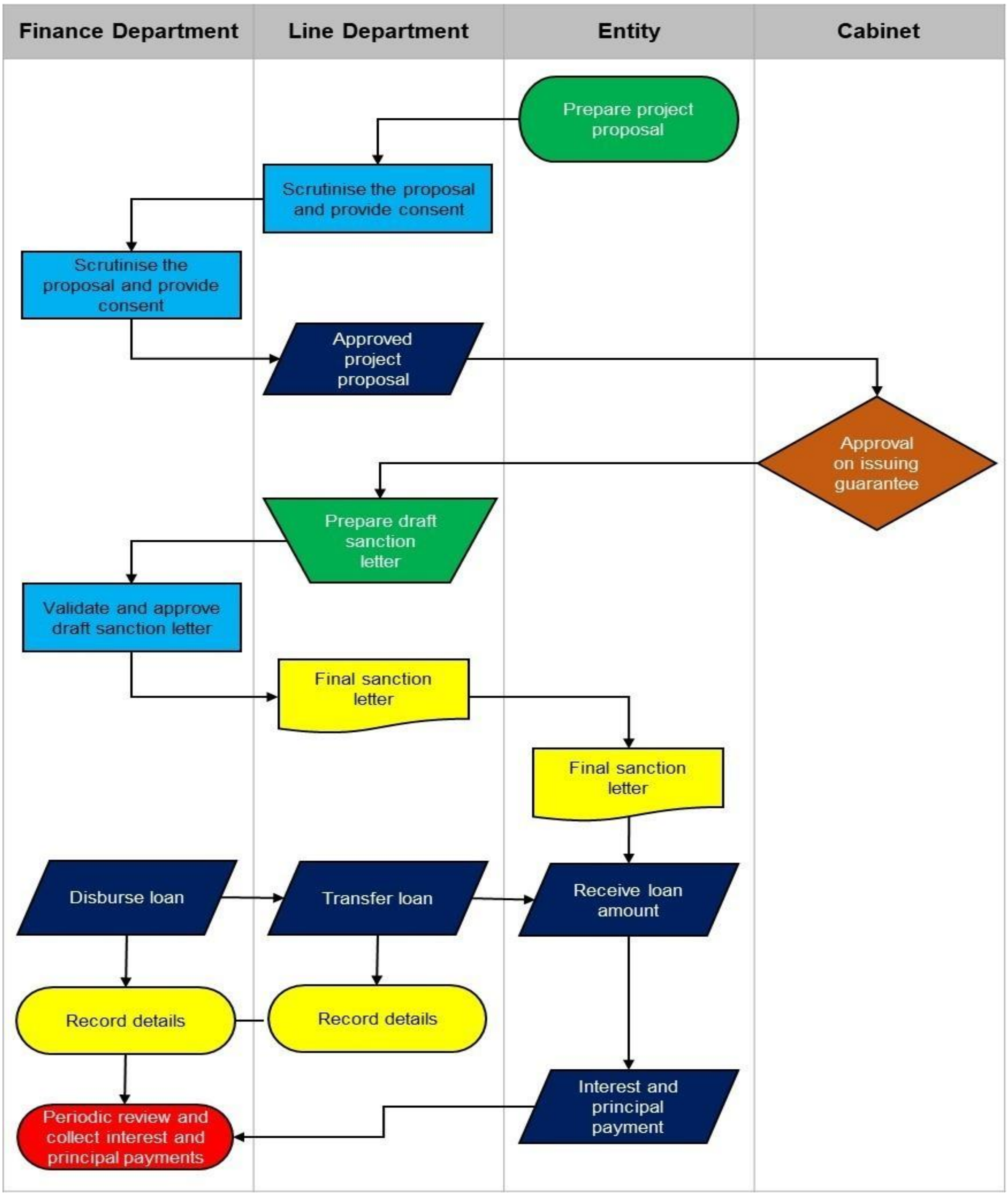
Step 12. Finance and line department shall periodically carry out review of projects and utilization of loan among other things and ensure that the entity is discharging its repayment obligations as per the terms and conditions of the loan agreement. Finance Department shall collect the interest and principal payment accordingly

Indicative Terms and Conditions for providing Loans and Advances:

- Loans and Advances shall be provided only to Public Sector Undertakings, Local Bodies, Statutory Boards, Corporations, Cooperative Institutions, other Authorities and Agencies under GoUk in accordance with approved policy and Financials Rules
- Loans and Advances shall be provided only for capital projects
- Adequate provision shall be made in Budget for the loans which can be foreseen. Various line department shall provide estimates of receipts and transfers related to Loans and Advances and communicate it to Finance Department
- Loans and Advances shall be sanctioned only after the consent of Head of line department, Finance Department and the Cabinet
- Duration of the loans shall be as short as possible, within which it is fully repaid along with interest payment
- Disbursement of loans shall be linked to the progress on the project and it will be made only after adequate proofs and bills are submitted
- The repayment of loans shall be through instalments, which shall ordinarily be fixed on a half yearly/yearly basis, due dates for payments being specially prescribed

- Interest payment shall be made as per the agreed interest rate (per annum on principal outstanding) either quarterly/half yearly/yearly basis
- The amount of loan should be utilised for the purpose for which it is granted, and certificate of utilisation will be obtained from the loans
- Adequate provisions shall be made against default of payments and irrecoverable Loans and Advances
- Whenever a loan is given by the state, a Government Order should be issued by the Finance Department and the following details should be clear in the order
  1. Name of the entity to which loan is given
  2. The budget head from which the loan is issued
  3. Tenure of the loan
  4. Interest rate of the loan
  5. Repayment dates of the loan
  6. Repayment Schedule of the loan

Flow Chart – Procedure for providing Loans and Advances to Government entity


Finance Department
Line Department
Entity
Cabinet
Prepare project proposal
Scrutinise the proposal and provide consent
Scrutinise the proposal and provide consent
Approved project proposal
Approval on issuing guarantee
Prepare draft sanction letter
Validate and approve draft sanction letter
Final sanction letter
Final sanction letter
Disburse loan
Transfer loan
Receive loan amount
Record details
Record details
Interest and principal payment
Periodic review and collect interest and principal payments

Debt Statistical Bulletin

In order to ensure transparency in the public debt management in the State, GoUk may publish a 'Debt Statistical Bulletin' at least once every year. This report will contain public debt information for dissemination to concerned stakeholders, investors and general public. Debt Statistical Bulletin may contain information on debt portfolio of the State which includes instrument-wise loan details, interest rate, maturity, and debt servicing details on outstanding loans.

The Bulletin may include various debt ratios and indicators, such as the shares of debt to GSDP, debt to revenue receipts, interest payment to revenue receipts; and risk associated with the debt portfolio including interest rate risk and refinancing risks. A section on Debt Sustainability Analysis may be included in the report. Information of government guarantees, and other liabilities may also be included in the Debt Statistical Bulletin.

The table below provides indicative contours of the Debt Statistical Bulletin:

Sections	Components
	Preface
	Executive Summary
Part I	**Descriptive**
1.	Legal Framework
2.	Definition of Public Debt & its Components (Coverage)
3.	Debt Recording
4.	Assessment in current year
4.1.	Key Macroeconomic and Public Debt indicators
4.2.	Instrument-wise
4.3.	Other Liabilities
5.	Government Guarantees
6.	Emerging Issues and Road Ahead
Part II	**Statistical Tables**
Table 1.	Key Macroeconomic and Public Debt indicators
Table 2.	Public Debt Portfolio
Table 3.	Outstanding Public debt – Interest rate-wise
Table 4.	Outstanding Public debt – Maturity-wise
Table 5.	Debt Servicing
Table 6.	Public Debt Transactions
Table 7.	Other Liabilities
Table 8.	Guarantees

Table 1 - Key Macroeconomic and Public Debt indicators

	GoUk - Key Macroeconomic and Public Debt indicators						
Sl. No	**Key macroeconomic indicators**	**Unit**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
1	GSDP (current prices)	Rs. Cr					
2	GSDP Growth Rate	%					
3	GSDP (constant prices)	Rs. Cr					
4	Government revenues	Rs. Cr					
5	Grants	Rs. Cr					
6	Revenue Surplus	Rs. Cr					
7	Primary Deficit	Rs. Cr					
8	Fiscal Deficit	Rs. Cr					
9	Fiscal Deficit/GSDP	%					
10	Revenue Deficit/GSDP	%					
11	Primary Deficit/GSDP	%					
	Key Debt indicators						
1	Public debt	Rs. Cr					
2	Public Debt Growth Rate	%					
3	Debt to GSDP Ratio	%					
4	Total Debt to Revenue Receipts Ratio	%					
5	Debt service for the year to Revenue Receipts	%					
6	Interest Payment to Revenue Receipts Ratio	%					
7	Interest Payment to Revenue Expenditure	%					
8	Weighted Average Interest Rate	%					
9	Weighted Average Maturity	Years					

	GoUk - Key Macroeconomic and Public Debt indicators						
Sl. No	**Key macroeconomic indicators**	**Unit**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
10	Short term debt to Total Outstanding debt Ratio	%					
11	Debt Redemption (Principal+ Interest) to Total Debt Receipts	%					
12	Share of debt to be refinanced within one year	Rs. Cr					

Table 2 – Public Debt Portfolio

GoUk - Public Debt Portfolio (Year-wise)						Rs. Cr.
	Components	**Actuals**	**Actuals**	**Actuals**	**Actuals**	**Actuals**
		Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
A	**Public Debt**					
a	Internal Debt					
i	*Open Market Borrowings (SDLs)*					
ii	*Bonds*					
iii	*Special Securities issued to NSSF*					
iv	*Loans from NABARD*					
v	*Loans from NCDC*					
vi	*Loans from other Financial Institutions*					
b	Loans from GoI					
c	WMAs and Overdraft					
B	**Other Liabilities - Public Accounts**					
a	State Provident Fund					
b	Reserve Funds					
i	*Interest Bearing*					
ii	*Non-interest Bearing*					
c	Deposits and advances					
i	*Interest Bearing*					
ii	*Non-interest Bearing*					
C	**Total Liabilities (A+B)**					

Table 3 – Outstanding Public debt – Interest rate-wise

Interest Rate Profile - Debt Portfolio								Percent
Sl. No	**Rate of Interest**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Outstanding Loan (Rs. Cr)**	**Share in Total**
1	3.00 to 4.99%							
2	5.00 to 5.99%							
3	6.00 to 6.99%							
4	7.00 to 7.99%							
5	8.00 to 8.99%							
6	9.00 to 9.99%							
7	10.00 to 10.99%							
8	11.00% and above							
9	Others							
	Total							

Table 4 – Outstanding Public debt – Maturity-wise

Maturity Profile - Debt Portfolio								Rs. Cr
Sl. No	**Rate of Interest**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Total Outstanding Loan**	**Share in Total**
1	Less than one year							
2	1 year to less than 2 years							
3	2 years to less than 3 years							
4	3 years to less than 4 years							
5	4 years to less than 5 years							
6	5 years to less than 6 years							
7	6 years to less than 7 years							
8	7 years to less than 8 years							
9	8 years to less than 9 years							
10	9 years to less than 10 years							
11	10 years to less than 15 years							
12	15 years to less than 20 years							
13	20 years to less than 25 years							
14	More than 25 years							
15	Others							
	Total							

Table 5 – Debt Servicing

GoUk - Public Debt Portfolio (Year-wise)										Rs. Cr.
Year		**Year 1**			**Year 2**			**Year 3**		
S. No	**Components**	**Interest payment**	**Principal Payment**	**Total Amount**	**Interest payment**	**Principal Payment**	**Total Amount**	**Interest payment**	**Principal Payment**	**Total Amount**
1	Market Borrowings									
2	Loans from GoI									
3	Loans from NABARD									
4	Loans from NSSF									
5	Loans from NCDC									
6	Others									
	Total									

GoUk - Public Debt Portfolio (Year-wise)										Rs. Cr.
Year		**Year 4**			**Year 5**			**Year 6 and above**		
S. No	**Components**	**Interest payment**	**Principal Payment**	**Total Amount**	**Interest payment**	**Principal Payment**	**Total Amount**	**Interest payment**	**Principal Payment**	**Total Amount**
1	Market Borrowings									
2	Loans from GoI									
3	Loans from NABARD									
4	Loans from NSSF									
5	Loans from NCDC									
6	Others									
	Total									

Table 6 – Public Debt Transactions

GoUk - Public Debt Transactions (As on date)					Rs. Cr.
	Components	**Balance as on 1 April 20XX**	**Additions during the Year**	**Discharge during the Year**	**Balance as on 31 March 20XX**
A	**Public Debt**				
a	Internal Debt				
i	*Open Market Borrowings (SDLs)*				
ii	*Bonds*				
iii	*Special Securities issued to NSSF*				
iv	*Loans from NABARD*				
v	*Loans from NCDC*				
vi	*Loans from other Financial Institutions*				
b	Loans from Centre				
c	WMAs and Overdraft				
B	**Other Liabilities - Public Accounts**				
a	State Provident Fund				
b	Reserve Funds				
i	*Interest Bearing*				
ii	*Non-interest Bearing*				
c	Deposits and advances				
i	*Interest Bearing*				
ii	*Non-interest Bearing*				
C	**Total Liabilities (A+B)**				

Table 7 – Other Liabilities

Other Liabilities (Public Account)								Rs.Cr
Sl. No	**Description**	**Balance on April 1, 20XX**	**Additions during the year**	**Discharges during the year**	**Balance as on March 31, 20XX**	**Net increase / decrease during the year**	**Net increase / decrease during the year (in %)**	**Interest paid**
I	Small savings and provident fund							
a	Small savings							
b	State Provident Fund							
c	Other Accounts							
J	Reserve Funds							
a	Reserve Funds Bearing Interest							
b	Reserve Funds not Bearing Interest							
	Sinking Fund							
	Development and welfare Fund							
	General and Other Fund							
K	Deposits and Advances							
a	Deposits Bearing Interest							
	Civil Deposits							
	Deposits of Local Funds							
	Other Deposits							
b	Deposits not Bearing Interest							
	Civil Deposits							
	Deposits of Local Funds							
	Other Deposits							
	Public Account - Grand Total							

Table 8 – Guarantees

Guarantees											Rs.Cr
Sl. No	Sector (No. of Guarantees within bracket)	Maximum amount of guarantee during the year	Outstanding at the beginning of year the	Addition during the year	Deletions during the year	Invoked during the year		Outstanding at the end of the year	Guarantees Fee		Other details
						Discharged	Not discharged		Receivable	Received	

Glossary of general terms

Auction
Auction is a method of issuing government securities. Auctions can be either yield-based or price-based. Yield-based auction is conducted when a new Government security is issued. Investors bid in yield terms up to two decimal places (e.g., 8.19%, 8.20%, etc.). Bids are arranged in ascending order and the cut-off yield is arrived at the yield corresponding to the notified amount of the auction. The cut-off yield is then fixed as the coupon rate for the security. Successful bidders are those who have bid at or below the cut-off yield. Bids which are higher than the cut-off yield are rejected.

Illustrative example: Yield-based auction

Yield based auction of a new security

- Maturity Date: January 11, 2026
- Coupon: It is determined in the auction (8.22% as shown in the illustration below)
- Auction date: January 08, 2016
- Auction settlement date/Issue date: January 11, 2016*
- Notified Amount: Rs. 1000 crore

** January 9 and 10 being holidays (Saturday and Sunday), settlement is done on January 11, 2016 (T+1 settlement)*

Details of bids received in the increasing order of bid yields				
Bid No.	**Bid Yield**	**Amount of bid (₹Cr)**	**Cumulative amount (₹Cr)**	**Price* with coupon as 8.22%**
1	8.19%	300	300	100.19
2	8.20%	200	500	100.14
3	8.20%	250	750	100.13
4	8.21%	150	900	100.09
5	8.22%	100	1000	100
6	8.22%	100	1100	100
7	8.23%	150	1250	99.93
8	8.24%	100	1350	99.87

The issuer would get the notified amount by accepting bids up to bid at sl. no. 5. Since the bid number 6 also is at the same yield, bid numbers 5 and 6 would get allotment on pro-rata basis so that the notified amount is not exceeded. In the above case each of bidder at sl. no. 5 and 6 would get Rs. 50 crore. Bid numbers 7 and 8 are rejected as the yields are higher than the cut-off yield.

Price-based auction is conducted when the Government re-issues securities issued earlier. In a Multiple Price auction, the successful bidders are required to pay for the allotted quantity of securities at the respective price/yield at which they have bid. On the other hand, in a Uniform Price auction, all the successful bidders are required to pay for the allotted quantity of securities at the same rate, i.e., at the auction cut-off rate, irrespective of the rate quoted by them.

Bid Price/Yield
The price/yield being offered by a potential buyer for a security.

Competitive Bid
Competitive bid refers to the bid for the stock at the price stated by a bidder in an auction.

Coupon
The rate of interest paid on a debt security as calculated on basis the security's face value.

Debt Sustainability
A debt situation is sustainable when the debt level is such that it can be serviced through future stream of revenues without hampering the productivity and solvency of the Government.

Discount
When the price of a security is below the par value, it is said to be trading at a discount. The value of the discount is the difference between the Face Value (FV) and the Price. For example, if a security is trading at 99, the discount is 1.

Face Value
Face value is the amount that is to be paid to an investor at the maturity date of the security. Debt securities can be issued at varying face values, however in India they typically have a face value of 100. The face value is also known as the repayment amount. This amount is also referred as redemption value, principal value (or simply principal), maturity value or par value.

Fixed-Rate Bond
Long term debt instruments that pays a fixed coupon rate as indicated at the time of issuance.

Floating-Rate Bond
Bonds whose coupon rate is re-set at predefined intervals and is based on a pre-specified market-based interest rate.

Maturity Date

The date when the principal (face value) is paid back. The final coupon and the face value of a debt security is repaid to the investor on the maturity date. The time to maturity can vary from short term (1 year) to long term (30 years).

Non-Competitive Bid

NCB means the bidder would be able to participate in the auctions of securities without having to quote the yield or price in the bid. The allotment to the non-competitive segment will be at the weighted average rate that will emerge in the auction based on competitive bidding. It is an allocating facility wherein a part of total securities is allocated to bidders at a weighted average price of successful competitive bid.

Price

The price quoted is for per 100 of face value. The price of any financial instrument is equal to the present value of all the future cash flows. The price one pays for a debt security is based on several factors. Newly-issued debt securities usually sell at, or close to, their face value. In the secondary market, where already-issued debt securities are bought and sold between investors, the price one pays for a bond is based on a host of variables, including market interest rates, accrued interest, supply and demand, credit quality, maturity date, state of issuance, market events and the size of the transaction.

Primary Dealers/Market Makers

In order to accomplish the objective of meeting the Government borrowing needs as cheaply and efficiently as possible, a group of highly qualified financial firms/ banks are appointed to play the role of specialist intermediaries in the G-Sec market between the issuer on the one hand and the market on the other. Such entities are generally called Primary dealers or market makers. In return of a set of obligations, such as making continuous bids and offer price in the marketable G-Secs or submitting reasonable bids in the auctions, these firms receive a set of privileges in the primary/ secondary market.

Repo

Repo means an instrument for borrowing funds by selling securities of the Government or of such securities of a local authority as may be specified in this behalf by the State Government, with an agreement to repurchase the said securities on a mutually agreed future date at an agreed price which includes interest for the fund borrowed.

Repo Rate

Repo rate is the return earned on a repo transaction expressed as an annual interest rate.

Residual Maturity

The remaining period until maturity date of a security is its residual maturity. For example, a security issued for an original term to maturity of 10 years, after 2 years, will have a residual maturity of 8 years.

Secondary Market

The market in which outstanding securities are traded. This market is different from the primary or initial market when securities are sold for the first time. Secondary market refers to the buying and selling that goes on after the initial public sale of the security.

Treasury Bills

Debt obligations of the Government of India, that have maturities of one year or less are normally called Treasury Bills or T-Bills. Treasury Bills are short-term obligations of the Treasury/Government. They are instruments issued at a discount to the face value and form an integral part of the money market. Surplus cash is invested in Treasury Bills by GoUk.

Underwriting

The arrangement by which investment bankers/Primary Dealers undertake to acquire any unsubscribed portion of a primary issuance of a security. Underwriting is optional for SDLs. If the State agrees for underwriting its SDL issuances, the underwriting commission is to be borne by the State.

Weighted Average Price/ Yield

It is the weighted average mean of the price/ yield where weight being the amount used at that price/ yield. The allotment to the non-competitive segment will be at the weighted average price/yield that will emerge in the auction on the basis of competitive bidding.

Weighted Average Maturity

It is the weighted average years that the total outstanding public debt would mature where the weight being the outstanding amount.

Yield

The annual percentage rate of return earned on a security. Yield is a function of a security's purchase price and coupon interest rate.