

Sys Jw
ISOP E1 24/7

Admstr (SM)
24/7

Dir (MS) (PE T)
24/7

Sub: _____ Gu: _____

Office Memorandum

Sub: Guidelines for examining proposals of States availing Structural Adjustment Loan & other external loan for clearance from debt sustainability angle.

Attention is drawn to the O.M. No. 4(5)/FRU/2004 dated October 24, 2005 on the subject mentioned above.

2. Department of Expenditure has been examining proposals of state governments for availing structural adjustment loans and external loan assistance for projects, taking into account States' Fiscal Correction path. Consequent upon acceptance of the recommendations of the Fourteenth Finance Commission (FC-XIV), it has become necessary to revisit the above guidelines for assessment of debt sustainability of States for availing structural adjustment loans and external loan assistance for projects.

3. Annual net borrowing limits to States is determined by Department of Expenditure, Ministry of Finance, based on the recommendations of Finance Commissions which limits the net borrowings to fiscal deficit norms prescribed for each State and in line with Fiscal Responsibility and Budget Management Acts in place in all the States. The States are required to remain within the borrowing ceiling fixed by the Ministry of Finance each year and also the fiscal deficit limits & debt to GSDP norms prescribed by Finance Commissions as incorporated in the FRBMA of States.

4. In view of the above and to further streamline the process of accessing external loans, it has now been decided that there may not be any need to examine the proposals of State governments for external loan assistance from the debt sustainability angle. However, loans under EAPs would be considered by Department of Economic Affairs (DEA) subject to States confirming/self certifying on following aspects at the time of submitting their proposals to DEA:

- i) Support through EAP loans would generally be utilised in areas within the overall national priorities & harmonize with national objectives and that such proposals do not overlap with an already available source of funding.
- ii) The State's contribution for such projects (i.e. counterpart funding) is clearly indicated by the State at the time of submitting the project proposal to DEA.
- iii) For the EAP loans passed on to the States, the commitment charges, foreign exchange risks, etc are borne by the States concerned.

- iv) In case, requirement of loans tend to breach the overall borrowing ceiling of the State during the loan disbursal period, the State will be required to substitute an otherwise agreed source of borrowing so as to remain within the net borrowing ceilings.

5. In order to monitor the States' liabilities arising on account of EAP loans effectively, the following revised process is prescribed:

- i) After conclusion of loan negotiations for EAP, DEA would indicate to DoE the nature of projects, size of loan, tenure of loan, phasing of loan disbursal, interest charges and commitment charges, etc as negotiated with the lenders.
- ii) CAAA would indicate the schedule of loan disbursal, extent of loans falling due for repayment, and overdue liability, Commitment charges, if any, to be borne by the States.
- iii) Based on the details/inputs received from DEA and CAAA, PF – I Division in Department of Expenditure would effectively monitor the debt sustainability position of the States.

6. Borrowings made by a State in excess of entitlement of a State upto the end of 3rd quarter of a financial year, if any, would be adjusted against the borrowing space of the State for 4th quarter. In any case, the excess borrowings made during the financial year will need to be adjusted against the net eligibility of borrowing ceiling for next financial year.

7. The above decision will be reviewed periodically after every two years to ensure that the overall liabilities on account of external loans remain sustainable.

Sd.

(G.C. Murmu)

Joint Secretary to Government of India

To

Finance Secretaries of all the States.

Copy to:

1. PPS to Finance Secretary & Secretary (EA), North Block.
- ✓ 2. PPS to Secretary (Exp), North Block.
3. PPS to Addl. Secretary (Exp), North Block.
4. Addl. Secretary (EA), DEA, North Block.
5. Joint Secretary (BC), DEA, MoF, North Block.
6. Joint Secretary (MI), DEA, MoF, North Block.
7. Joint Secretary (Budget), DEA, MoF, North Block.
8. CAAA, DEA, MoF, Janpath Bhawan, New Delhi.

[Signature]

(G.C. Murmu)

Joint Secretary to Government of India