Working Group on Information on
State Government Guaranteed Advances and Bonds

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Introduction

1.1 Faced with a situation of hard budget constraint and the need to step up public investment, State Governments have been issuing a large amount of guarantees and letters of comfort on behalf of public sector undertakings (PSUs) at the State level, co-operative societies and State Co-operative Banks (StCBs) for the purpose of public investment, particularly in resource-intensive infrastructure sector and for promotion of rural development, to enable the PSUs to mobilise resources.

1.2 The State Governments' mounting debts and the devolvement pressures of guarantees have emerged as causes of serious concern in recent years. The Government of India has discontinued allocation of market borrowing for all State level undertakings [including State Financial Corporations (SFCs) and Scheduled Co-operative Agriculture and Rural Development Banks (SCARDBs), effective April 1, 2003] lest their default on advances/investments guaranteed by State Governments affect the States' market borrowing programme. Besides, the risk of devolvement of guaranteed bonds and advances can pose a serious threat to financial stability. The Reserve Bank of India (RBI) has, therefore, stipulated prudential norms for the Government guaranteed exposures for scheduled commercial banks (excluding regional rural banks and local area banks) and select all-India financial institutions (AIFIs) that are under its regulatory purview **(Annex I).**

1.3 In recent years, the RBI has been sensitizing State Governments of the fiscal burden that such guarantees might entail and has suggested measures to contain them. The RBI has taken several initiatives on assessment of fiscal risk arising from State Government guarantees. State Governments have adopted several follow-up measures. These initiatives have been summarised in **Annex II**. The RBI has also been publishing the aggregate data on outstanding guarantees issued by the State Governments in respect of 17 major States in its *Report on State Finances* and its *Annual Report*. Other States are yet to develop their database.

1.4 It is crucial to analyse the trends in issuance, invocation/devolvement and honouring of guarantees and letters of comfort to ascertain debt sustainability, credit rating, and systemic risk likely to arise from default on such guarantees. It is necessary to have data both from the issuers' (i.e. State Governments) side as well as from side of the lenders/investors. At present, however, there is no centralised source of comprehensive and reliable information on the outstanding State Government guarantees and letters of comfort (that are of the nature of guarantees, *albeit* implicit) either from the issuers' side or the investors' side.

1.5 The recent instances of default on State guaranteed loans and advances and the absence of a comprehensive database of defaults across various segments of the financial system have brought to the fore the urgent need for development of database for, *inter alia*,

(i) analysing the secular trend of State Government guarantees;

(ii) overdues in respect of State Government guaranteed exposures, invocation of such guarantees by the lenders/investors and consequent devolvement on the guarantor; and

(iii) default by the guarantor in respect of invoked guarantees.

1.6 The Central Government has taken initiatives for development of database by the State Governments on guarantees issued by them (i.e. from the issuer side). Thus, participation of States in the Medium Term Fiscal Reforms Programme (MTFRP) makes it mandatory for States to develop and maintain such database. Recently, the Government Accounting Standards Board (GASAB) has circulated a format amongst State Governments for disclosure of information related to guarantees issued by them, from the perspective of the issuer. The format, which is yet to be implemented, provides for category-wise and purpose-wise details **(Annex III)**. Once the States begin to publish the data as per the prescribed format, a comprehensive set of data from the issuers' side would be available.

1.7 The data from the investors' side lie scattered across the various financial sector regulators. As far as the RBI is concerned, the data are only a by-product of its prudential supervisory focus. While the RBI has supervisory data, that are compiled systematically, the data with the other financial sector regulators are not similarly compiled, although they do have access to such information. Hence, a comprehensive database on State Government guarantees, specially from the investors' perspective, was found to be conspicuous by its absence. Against this backdrop, Dr Rakesh Mohan, Deputy Governor suggested the setting up of an internal Working Group to look into the present status of the reporting system in respect of State Government guaranteed exposures (loans and bonds) and to develop a reporting framework that would provide holistic data coverage and transparent reporting system on various aspects of State Government guarantees. Hence, the formation of the present Working Group with the following terms of reference.

2. The Terms of Reference

a) To assess the present status of data available on State Government guaranteed loans, advances and investments in terms of its coverage, sources, accessibility as also reporting frequency.
b) To suggest an appropriate reporting system in respect of State Guaranteed loans and bonds.
c) To recommend an appropriate mechanism for the dissemination and publication of such data.

List of members and persons associated with the Group is at **Annex IV**.

3. Present Status of Data (from the Investors' Side) – Coverage, Reporting Frequency, Sources and Accessibility

3.1 There are several gaps in the present reporting system from the investors' side and comprehensive information is therefore not available. The data on State Government guaranteed loans and bonds are compiled by the RBI and the Indian Banks' Association (IBA). While the RBI has been obtaining off-site surveillance data from the commercial banks, non-banking financial companies (NBFCs) and the select AIFIs, the reporting system does not provide detailed data in respect of State Government guarantees since the system primarily has a prudential supervisory focus. Within the RBI, limited data are available with the Off-site Monitoring and Surveillance (OSMOS) Division of the Department of Banking Supervision (DBS) and Financial Institutions Division (FID) of DBS in respect of commercial banks and the nine select AIFIs regulated and supervised by RBI[1], respectively, obtained through the quarterly off-site returns, in the formats given in **Annex V and VI** DBS (FID) Format of Annex to Inspection Report of the FIs* on Government Guaranteed Advances is also enclosed as **Annex VII**. It is evident that, of the 42 Public Financial Institutions (PFIs) which are specified/notified under Section 4A of the Companies Act, 1956, the RBI does not have relevant data in respect of the 33 PFIs that do not fall within its regulatory and supervisory domain. It has been recently decided to extend the OSMOS reporting format to the 56 Scheduled Urban Co-operative Banks (UCBs). The format for submission of credit data (Form A) on a quarterly basis under Credit Monitoring Arrangement as received by the RBI's Industrial and Export Credit Department (IECD) is enclosed as **Annex VIII.** (These, however, relate only to borrowers with credit limits of over Rs.10 crore).

3.2 Amongst all the financial sector entities, the data on commercial banks and select AIFIs are the most comprehensive but even these data are unaudited and are of a provisional nature (except the data as at the end of March). These data are collected by different departments within the RBI for specific purposes such as assigning of risk weights for calculation of capital adequacy in the case of banks and FIs, and are quite adequate for supervision. IBA also compiles data in respect of commercial banks based on information received from its member banks. However, the data that are currently available in the public domain may not be adequate to promote market discipline or meet the requirements for rating purposes.

3.3 In the case of the non-banking financial companies (NBFCs), those not accepting deposits from the public are not required to submit returns to the RBI. Hence, there may be the issue of inter-temporal data comparability as the population of the reporting companies could vary

[1] These are: EXIM Bank, IDBI, IDFC Ltd., IFCI Ltd., IIBI Ltd., NABARD, NHB, SIDBI and TFCI Ltd. Among them, NABARD, NHB and SIDBI are regulators/supervisors of certain classes of the investors/lenders which too have State Government guaranteed exposures.

from year to year. Tracking the activities of small but innumerable non-scheduled co-operative banks – urban and rural - has always been difficult. In terms of systemic importance with respect to financial stability, however, their role as investors may not be very significant.

3.4 There are institutions that apart from being lenders to, or investors in government guaranteed entities/papers are also entrusted with regulatory and supervisory functions in respect of certain entities in the financial sector and are, in turn under the regulatory ambit of the RBI. These include: NABARD, NHB and SIDBI. While they have access to information related to institutions that they regulate/supervise, they have not felt the need to devise a structured reporting system to capture the exposure of the regulated entities to State Government guaranteed advances and investments. Some of the institutions regulated by them (e.g. HUDCO, which is regulated by NHB and NCDC which is regulated by NABARD) have substantial exposures to such guaranteed assets.

3.5 Finally, there are several investors/lenders that do not come within the regulatory purview of the RBI but have acquired a significant amount of government guaranteed exposures to generate systemic implications. Such investors/lenders include Public Financial Institutions (PFIs) such as LIC and PFC, as well as other institutions, such as provident fund (PF) trusts. The regulators of these institutions – IRDA in respect of insurance companies and the PF regulator in respect of PF Trusts - have access to the information but do not have in place a reporting system or format at present.

4. Reporting Mechanism

4.1 With a view to drawing up an appropriate and comprehensive reporting system, the Group met thrice – on August 9, August 21 and September 8, 2003. The starting point of the Group was to identify the various categories of lenders/investors. Accordingly, the following categories of lenders/investors in State guaranteed papers were identified:

A. Banking Entities

- a) Commercial Banks
- b) Rural Co-operative Banks
- c) Urban Co-operative Banks

B. Financial Institutions

- a) National Bank for Agriculture and Rural Development (NABARD)
- b) National Housing Bank (NHB)
- c) Small Industries Development Bank of India (SIDBI)

d) Life Insurance corporation of India (LIC)
e) Housing and Urban Development Corporation (HUDCO)
f) Rural Electrification Corporation (REC)
g) Power Finance Corporation (PFC)
h) Other Public Financial Institutions (PFIs)

C. Others

a) Public and Private Sector Provident Funds (PFs);
b) Charitable Trusts
c) National Co-operatives Development Corporation (NCDC)
d) Non-Banking Financial Corporations (NBFCs)

4.2 In order to draw up an appropriate reporting mechanism, the main issues that were considered included the following :

a) The modalities for addressing the data gaps in respect of investor categories for which no information is available with the RBI;
b) The design/structure of the format to be prescribed for reporting of data and the measures required to improve the quality of information; and
c) The nodal agency for collecting the information.

4.3 As regards the first issue, it was observed that there are several investor categories for which no information is available with the RBI. In order to obtain a holistic picture, the Group invited senior officials from the various financial sector regulators[2], such as, the Insurance and Regulatory Development Authority (IRDA), NABARD, NHB and PF Commissioner as well as PFIs such as HUDCO to sensitise them of the subject and to facilitate the information gathering process. The deliberations indicated that the relevant information is available with them, although on a dis-aggregaged basis and if the information technology (IT) issue (including devising the appropriate software) for compilation of information by the various regulators is resolved, it would not be difficult for the regulators to compile the data. The RBI would, however, need to make formal

[2] Among the regulators, NABARD and NHB are creditors/investors to/in guaranteed advances and bonds.

requests to the various regulators for compilation and onward transmission of the data to the RBI. The invitees acknowledged the importance of such data for effectiveness of their own supervisory functions and also underlined the need for sharing of information amongst the regulators.

4.4 On the second issue, it was agreed to keep the reporting format for State Government guaranteed loans and bonds simple, for the ease of reporting by the financial market participants, and yet comprehensive. The reporting format designed by the Group (**Annex IX)** is divided into three parts. The format in respect of loans and advances (**Part A of Annex IX**) provides for compilation of data - State-wise, borrower-wise and sector-wise. In legal terms, letters of comfort (LCs) (which is of the nature of implicit guarantees), granted in respect of loans and advances, are one step below the (explicit) guarantees. Hence, the format provides for separate columns for formal guarantees and letters of comfort (LCs) issued by State Governments and the sum of formal guarantees and LCs give the aggregate amount of explicit as well as implicit guarantees. The format also provides for the bifurcation of the outstanding exposures guaranteed by the State Governments into funded and non-funded facilities extended by financing institutions. As the loan-wise data would be voluminous, it was decided not to include loan-wise data in the reporting format. The format in respect of guaranteed bonds (**Part B of Annex IX**) captures issuer-wise and nomenclature (i.e. ISN identification number)-wise total investments in guaranteed bonds, amount of overdue bonds and amount of invoked guarantees not honoured. The reporting format does not cover the rating of bonds.

4.5 To capture information on defaults in case of State Government guaranteed loans and advances, a distinction has been made between 'amount overdue and guarantee not invoked' and 'amount where guarantees have been invoked but not honoured'. The total amount in default would be the sum of these two items. Thus, defaults on loans would be defined as non-payment of interest and/or principal on the due date. In case of guaranteed bonds, the amount overdue on the bonds would include both principal and interest. Hence, defaults on bonds would be defined as either non-payment of interest or redemption proceeds or both on the stipulated/maturity date. The format also provides for information on the amount of overdue bonds where guarantees has been invoked but not honoured. It is clarified that the definition of default as given above in respect of State Government guaranteed advances and bonds is only for reporting purposes and would have no accounting or balance sheet implications.

4.6 The Group felt that it would also be useful to capture the inter-temporal changes in the default position in a tabular format (**Part C of Annex IX**). Accordingly, the table would provide for the movements (additions/reductions) during each reporting period.Hence, $D_t=A_{t,t-1}-R_{t,t-1}+D_{t-1}$ where D_t and D_{t-1} = outstanding default as at time t and t-1, respectively, $A_{t,t-1}$ = fresh defaults between t and t-1 and $R_{t,t-1}$ = reduction from the outstanding stock of default as at t-1 by t.

4.7 While the reporting format as indicated above would provide systematic way of presentation of existing data, it was felt that the various regulators ought to improve upon their data gathering process in order to provide for a comprehensive database as per the format recommended.

4.8 The periodicity of the return would be half-yearly with a lag of one month (e.g., the data for end-March would be furnished by end-April). During the interregnum (i.e. between the reporting date and the date of furnishing the return), If it is seen that some borrowers have repaid their dues, the same could be indicated in a footnote.

4.9 As regards the third issue, the Group was of the view that the present practice on the collection of data should continue. Hence, DBS, FID, DNBS and UBD would be collecting data from commercial banks, select AIFIs, NBFCs and UCBs, respectively. To begin with, UBD would compile data in respect of the scheduled UCBs (56 at present). Over time, UBD could devise a mechanism to obtain timely data from the non-scheduled UCBs as well. As regards the categories of investors not supervised by the RBI, the Group felt that IRDA would collect and forward data to the RBI for insurance companies, NHB in respect of HFCs and HUDCO, NABARD in respect of rural co-operative banks, RRBs, NCDC, etc. Besides, the Central Government (Ministry of Labour) would collect and forward data to the RBI in respect of Provident Fund Trusts and the Ministry of Power in respect of PFC, REC, *etc*.

4.10 The Group observed that there should a central point or 'data warehouse' on all State government guaranteed loans and bonds in order to get an aggregate view. Since data would be collected by various departments within the RBI and other agencies outside the RBI, it becomes imperative to decide on a policy of consolidation and sharing of data at one place with a view to ensure its regular dissemination. To achieve this objective, a small Core Group may be set up consisting of IT personnel and functional officials that would assess the size of the database, complexity in collection, Management Information System (MIS) expected from the database, issues relating to sharing of data among different departments within RBI and outside RBI, etc. The Core Group may also recommend the suitable IT platform. In this regard, the Group could examine whether the Bank's Central Database Management System (CDBMS), which has the state of the art IT platform and constant online support, has the capacity to handle this kind of data consolidation and maintenance on an ongoing basis.

5. Transparency in Information Disclosure

5.1 Transparency in information disclosure is crucial to enhance market discipline and proper rating of projects that are guaranteed by the State Governments. The availability of information on defaults only at a State-wise aggregated level (rather than at the level of the borrower) could sometimes go against the guarantor (State Government) than would be the case if information were available on a more dis-aggregated (i.e. project/borrower) basis. At the same time, the legal aspect relating to the publication of borrower-level data on defaults has also to be borne in mind. The Working Group deliberated in detail on the various pros and cons on the coverage of information for the purpose of dissemination. The Group, *inter alia*, considered the views of the CIBIL Working Group on dissemination of information on State Government guaranteed bonds

(**Annex X)** and felt that the legal complexities may come in the way of disseminating the entire spectrum of information available with the regulators to the public. The Working Group felt that it did not have the mandate to decide on the legal aspects and decided to leave it to each of the regulators involved to seek legal opinion on the issue.

5.2 Instead of publication of data at the issuer level, which in any case is being addressed by the GASAB, the Working Group was of the view that (i) individual lender/investor-wise data (broken up into sectors) and (ii) State-wise data on guaranteed advances and investments (including defaults) could be disseminated through the RBI publications (*Report on State Finances* and *Report on Trend and Progress of Banking in India* as at the end of September and the *Annual Report* as at the ended March). The data on defaults (as defined in Para 4.5) could also be disseminated through the RBI web-site (subject to the limitations indicated in Para 5.1). The implications of this dissemination would be that there would be greater awareness about the likely fiscal risk of providing guarantees and the risk posed by State Government guarantees for financial stability.

5.3 The Working Group thought it impracticable to capture data on investments by individuals and non-financial corporates (i.e. other than financial institutional investors and lenders), partly because they are too numerous and partly because they have a limited exposure in terms of subscription to guaranteed investments.

6. Recommendations

Getting Information in Respect of Entities Not Regulated by RBI

6.1 In order to get information from the entities that are not regulated by the RBI, the RBI would need to make formal requests to the various regulators such as, the IRDA, NABARD, NHB and the regulator for PFs for compilation and onward transmission of the data to the RBI. (Para 4.3)

Reporting Format and Periodicity

6.2 The Group decided to keep the reporting format simple for the ease of reporting by the financial market participants and yet comprehensive. The reporting format designed by the Group (**Annex IX)** is divided into three parts. The first and the second parts cover State Government guaranteed loans and advances, and investments, respectively, while the third part provides inter-temporal movements in defaults.

6.3 While these formats would provide an improved way of presentation of existing data, the various regulators ought to improve upon their data gathering process in order to provide for a comprehensive database as per the format prepared. (Para 4.7)

6.4 The periodicity of the return would be half-yearly with a lag of one month (e.g., the data for end-March would be furnished by end-April). During the interregnum (i.e. between the reporting date and the date of furnishing the return), if it is seen that some borrowers have repaid their dues, the same could be indicated in a footnote. (Para 4.8)

Modalities for Collection of Data

6.5 The present practice on the collection of data should continue. Hence, DBS, FID, DNBS and UBD would be collecting data from commercial banks, select AIFIs, NBFCs and UCBs, respectively. To begin with, UBD would compile data in respect of the scheduled UCBs (56 at present). Over time, UBD could devise a mechanism to obtain timely data from the non-scheduled UCBs as well. As regards the categories of investors not supervised by the RBI, the Group felt that IRDA would collect and forward data to the RBI for insurance companies, NHB in respect of HFCs and HUDCO, NABARD in respect of rural co-operative banks, RRBs, NCDC, etc. Besides, the Central Government (Ministry of Labour) would collect and forward data to the RBI in respect of Provident Fund Trusts and the Ministry of Power in respect of PFC, REC, *etc*. (Para 4.9)

6.6 There should be a central point or 'data warehouse' on all State government guaranteed loans and bonds in order to get an aggregate view. A small Core Group may be set up consisting of IT personnel and functional officials from within and outside the RBI that would assess the size of the database, complexity in collection, Management Information System (MIS) expected from the database, issues relating to sharing of data among different departments within RBI and outside RBI, etc. The Core Group may also recommend the suitable IT platform. In this regard, the Core Group could examine whether the Bank's Central Database Management System (CDBMS), which has the state of the art IT platform and constant online support, has the capacity to handle this kind of data consolidation and maintenance on an ongoing basis (Para 4.10).

Transparency in Information Disclosure

6.7 The Working Group examined the desirability of disseminating the information related to defaults. While this could be a welcome course from the investor protection angle, legal complexities may come in the way of disseminating the entire spectrum of information on defaults available with the regulators to the public. Since the group did not have the mandate to decide on the legal aspects and decided to leave it to each of the regulators involved to seek legal opinion on the issue. (Para 5.1)

6.8 Instead of publication of data at the issuer level, which in any case is being addressed by the GASAB, the Working Group viewed that (i) individual lender/investor-wise data (broken up into sectors) and (ii) State-wise data on guaranteed advances and investments (including defaults) could be disseminated through the RBI publications (*Report on State Finances* and *Report on Trend and Progress of Banking in India*) as at the end of September and the *Annual Report* as at the end of March). The data on defaults (as defined in Para 4.5) could also be disseminated through the RBI web-site (subject to the limitations indicated in Para 5.1). The implications of this dissemination would be that there would be greater awareness about the likely fiscal risk of providing guarantees and the risk posed by State Government guarantees for financial stability. (Para 5.2)

6.11 It would be impracticable to capture data on investments by individuals and non-financial corporates (i.e. other than financial institutional investors and lenders), partly because they are too numerous and partly because they have a limited exposure in terms of subscription to guaranteed investments (Para 5.3).

sd/-
(G.Padmanabhan)
Chairman
October 7, 2003

sd/- (Roopa Kudva) Member	(K.Unnikrishnan) Member	(A. K. Misra) Member
(R. Sebastian) Member	(A.V.Sabhapathy) Member	(C.C.Mitra) Member
(Aloke Chatterjee) Member	(Abha Prasad) Member-Secretary	

Annex I

Prudential Norms Issued by the RBI in respect of agencies regulated by it

RBI introduced prudential requirements for guaranteed loans and investments in October 1998. RBI advised banks that under the capital adequacy norms for banks, investment in State Government guaranteed bonds outside the market borrowing programme would attract a credit risk weight of 20 per cent. In case a guarantee is invoked but the bond has remained in default, a credit risk weight of 100 per cent is assigned. The enhanced risk weight applies to the guaranteed bonds of the defaulting entities. As regards the advances guaranteed by the State Governments which stood invoked as on March 31, 2000, necessary provision was permitted to be made in a phased manner during 1999-2000 to 2002-2003 with a minimum of one fourth of the required provisions being made each year.

Secondly, in case of infrastructure financing and financing of Special Purpose Vehicles (SPVs) against government guarantee, the RBI advised the banks/FIs in February 2002 that while they are free to sanction term loans for technically feasible, financially viable and bankable projects undertaken by both public sector and private sector undertakings, they shall fully satisfy themselves that the projects financed by them have income generating capacity sufficient to service such loans and that the repayment/servicing of debt is not out of budgetary resources.

Further, in February 2002, the RBI stressed that State government guarantees may not be taken as a substitute for satisfactory credit appraisal. Loans to public sector SPVs should not be used for financing the budget of the State Governments. RBI advised the commercial banks and financial institutions that due diligence on the viability and bankability of projects should be undertaken to ensure efficient utilization of resources and credit-worthiness of the projects financed. Banks/Financial Institutions were also advised to ensure that the individual components of financing and returns on the projects are well defined and assessed. Lending/investment decisions in such cases should be based solely on commercial judgement of banks/financial institutions. There should be no compromise on proper credit appraisal and close monitoring of the projects financed and banks should ensure that only projects that are intrinsically viable are financed. State Government guarantees may not be taken as a substitute for satisfactory credit appraisal and such appraisal requirements should not be diluted on the basis of any reported arrangement with the Reserve Bank of India or any bank for regular standing instructions/periodic payment instructions for servicing the loans/bonds.

Annex II
RBI's Initiatives on State Government Guarantees
(From the Issuers' Side)

Background

Faced with a situation of deteriorating State finances leading to an erosion in public investment, State Governments have taken recourse to loan guarantees to promote investments. The outstanding guarantees of the State Governments have significantly increased from Rs. 40,159 crore as the end of March 1992 to Rs.1,66,116 crore at the end of March 2002 (Table 1).

Table 1: Outstanding Guarantees of State Governments*

Year (end-March)	Amount (Rs. Crore)	Percentage to GDP
1992	40,159	6.1
1993	42515	5.7
1994	48866	5.7
1995	48479	4.8
1996	52631	4.4
1997	63409	4.6
1998	73751	4.8
1999	97454	5.6
2000	132029	6.8
2001	168719	8.1
2002 (P)	166116	7.2

*** Data on State Governments guarantees are based on information received from State Governments. Data pertain to 17 major States.**
Source: State Finances: A Study of Budgets of 2002-03, RBI

Recognizing the growing magnitude of guarantees issued by State Governments and their potential impact on the future fiscal position of the States, the need to have a policy on guarantees was felt. The RBI constituted a Technical Committee on State Government Guarantees to examine the issue of State government guarantees. The recommendations made by the Committee (February 1999) related to, *inter alia*, *(i)* Imposition of ceiling on guarantees, *(ii)* Selectivity in calling for and providing of guarantees, *(iii)* Greater transparency in the reporting of guarantees and standardisation of documentation, *(iv)* Guarantee fee and constitution of a contingency fund for guarantees, and *(v)* Monitoring and honouring of guarantees.

The major initiatives in this regard are indicated below.

Ceiling on Guarantee

Following the guidelines given in the Report of the Technical Committee on guarantees, Karnataka and Rajasthan (1999) Assam, Sikkim (2000), West Bengal (2001) have introduced ceiling on guarantees (Table 2). The issue of imposition of ceiling on guarantees is under active consideration in Tamil Nadu and Kerala.

Table 2: Main Features of Statutory/Administrative Ceilings on Guarantees

State	Statutory/ Administrative (Year)	Ceiling	Other importan features
1. Assam	Administrative ceiling (2000)	The ceiling on guarantee issued by the Government is fixed at Rs.1500 crore.	
2. Goa	Statutory ceiling (1993)	The ceiling on guarantee issued by the Government is currently fixed at Rs.550 crore.	
3. Gujarat	Statutory ceiling (1963)	The ceiling on guarantees issued by the Government has been revised from time to time. As per the latest revision (March 2001), the ceiling on guarantees has been fixed at Rs.20,000 crore.	
4. Karnataka	Statutory ceiling (1999)	The total outstanding Government guarantee as on the first day of April of any year shall not exceed eighty per cent of revenue receipts of the second preceding year as they stood in the books of the Accountant General of State Government. The ceiling on the Government guarantee shall not apply for any additional borrowing for implementation of the Upper Krishna Project.	The Government will charge a minimum of one per cent as guarantee commission.
5. Rajasthan	Administrative ceiling (1999)	The total of loans and Government guarantee as on the last day of the any financial year shall not exceed twice the estimated receipts in the Consolidated Fund of the State for that financial year.	
6. Sikkim	Statutory ceiling (2000)	The total outstanding Government guarantee as on the first day of April of any year shall not exceed thrice the State's tax revenue receipts of the second preceding year as in the books of the Accountant General of State Government.	

7. West Bengal	Statutory ceiling (2001)	The total outstanding Government guarantee as on the first day of April of any year shall not exceed ninety per cent of revenue receipts of the second preceding year as they stood in the books of the Accountant General of the State Government. The ceiling on the Government guarantee is not applicable to any loan raised by the West Bengal Infrastructure Development Finance Corporation Limited under the guarantee given by the Government and fully availed of by the Government itself for funding different infrastructure projects and for repayment of which there is specific provision in the budget of the State.	A minimum of one per cent guarantee commission will be charged by the Government.

Guarantee Redemption Fund

The Technical Committee had recommended that each State should set up a contingency fund or make some provision for discharging the devolvement on guarantees provided by them. The guarantee fees collected should be credited to the fund set up for the purpose. RBI had circulated guidelines in this regard in August 2001. So far 3 States viz., Andhra Pradesh, Orissa and Gujarat have set up the Guarantee Redemption Fund and earmarked guarantee fees towards the Fund. Presently, some other states like Goa and Haryana are also actively considering the proposal to set up a Guarantee Redemption Fund in their respective states.

Guarantee Fee

In 1992, the Central Government decided the fee structure for guarantees. Borrowings under the market borrowing programme were to be charged a guarantee fee of 0.25 per cent per annum of the guaranteed amount whereas for guarantees covering public sector borrowings, a guarantee fee of 1 per cent was fixed. For other borrowings, the guarantee fee was fixed at 2 per cent. The structure of the guarantee fee varies from state to state. The guarantee fees varied from 0.1 per cent to 2 per cent for different categories of projects (Table 3).

Table 2: Structure of Guarantee Fee/Commission in Some Indian States: March 2001 (per cent of guaranteed amount)

Sl.No	States	Structure of Guarantee Fee
1	Andhra Pradesh	0.5% to 2%
2	Karnataka	A floor fee of 1 per cent
3	Rajasthan	0.1 to 1 per cent
4.	Orissa	• 0.02% - 0.5% for Cooperative institutions, housing, local bodies and state PSEs • 1% for other guarantees and bonds; • NABARD and other agriculture related guarantees are exempted
5	Gujarat	1%, some state PSEs are exempt while 0.25% is charged for open market borrowing that forms part of the state annual plan.
6	West Bengal	A floor of 1 % is kept, but rises with greater default perception of the project
7	Kerala	0.75 per cent
8	Mizoram	No Guarantee fee is charged
9	Punjab	2 % for term loans, 1/8% for procurement agencies

Automatic Debit Mechanism

On the issue of providing automatic debit mechanisms to assure payment of State Government dues by debit to RBI account, the general consensus that such automatic debit mechanism should not be allowed for any of the other bonds issued/guaranteed by the State governments other than the State Development Loans (SDL) issued under the approved market borrowing programme. It has been announced by RBI in its 'Monetary and Credit Policy for the year 2002-03', as a general policy, to dispense with such automatic debits in future where there are no legal or other compulsions, and to suggest amendments where there is a legal compulsion. RBI has also proposed to review all cases of existing automatic debit mechanism in consultation with State governments and others concerned to dispense such mechanisms wherever feasible.

Transparency

A major constraint in analyzing the true fiscal position of States is the absence of a consistent and standard pattern of reporting data on guarantees. In the Conference of state finance secretaries held on June 12, 1999, a Core Group on Voluntary Disclosure Norms for State Governments was set up. The Group recommended disclosure of guarantees in a specific format. The statement would cover not only explicit guarantees but also letters of comfort and other structured payment arrangements which impinge on the budget of the States. Some State Governments disclose information on outstanding guarantees and guarantees issued by them in the State Budgets. In Andhra Pradesh, all contingent liabilities are disclosed in the State budget. Rajasthan discloses guarantees figures in Budget Document 4(8). West Bengal discloses all guarantees in the Budget Publication No. 6. Orissa had also brought out a white paper on guarantees.

Group to Assess the Fiscal Risk of State Government Guarantees

The RBI had constituted a Group of State Finance Secretaries and Government of India officials to assess the fiscal risk of State Government guarantees so as to fine tune measures to ensure transparency, doing away with guarantees to the extent possible and methodology for assessing fiscal risk of guarantees so as to contain them within sustainable limits. The Group submitted the Report in July 2002. The major recommendations of the Group are: (a) Guarantees which are to be met out by budgetary sources should be identified separately and treated as equivalent to debt. Such guarantees should be transparently included, reported and disclosed as indirect debt in the debt profile of the State to be monitored by the GOI and the States as part of overall debt for purposes of ascertaining sustainability of the State Government, (b) States need to publish data regarding guarantees regularly, in a uniform format in the annual budget. To further improve transparency it is recommended that both the annual sanctions of guarantees and outstanding amount need to be disclosed in the state legislature, (c) In order that a proper data base is created for capturing all guarantees and monitor their underlying liability, a Tracking Unit for guarantees may be designated (in the Ministry/ Departments of Finance) at the State level, (d) Acts/policies of central financial institutions should be amended/rationalized so that guarantees are not routinely insisted upon while extending loans, (e) Fiscal risk can be measured by classifying projects/ activities as high risk, medium risk, low risk and very low risk and assigned appropriate risk weights and (f) At least an amount equal to 1 per cent of outstanding guarantees may be transferred to the GRF each year from the fisc specifically to meet the additional fiscal risk arising on account of guarantees.

The Reserve Bank has also organized a workshop on 'Risk Evaluation on State Guarantees' to help State Government officials to analyse the risk of defaults on State Government guarantees.

Annex III

GASAB Format for Disclosure State Government Guarantees

Ministry/ Department /Beneficiary	Loan holder etc.	Authority for guarantee	Amount & Purpose of loan etc.	Extent of guarantee - principal interest etc. *	Period of validity	Details of reschedule etc.	Details of securities pledged
1	2	3	4	5	6	7	8

Guarantees outstanding at the beginning of the period	Addit -ions	Deletion (other than invoked)	Invoked		Outstanding Principal, interest, etc. at the end of the period*	Guarantee Commission		Other conditions & compliance
			Disch- arged	Not dis- char- ged		Recei- Received Vable		
9	10	11	12	13	14	15	16	17

* Rate of interest guaranteed in case of loans, debentures, etc. is to be given.

Annex IV
Persons Associated with the Report

Members

1. Shri G.Padmanabhan, CGM, IDMD - Chairman
2. Ms. Roopa Kudva, ED and Chief Rating Officer, CRISIL
3. Shri. K.Unnikrishnan, Executive, Banking Operations, IBA
4. Shri. A. K. Misra, GM, FID
5. Smt. R. Sebastian, GM, IECD
6. Shri A.V.Sabhapathy, GM, UBD (co-opted)
7. Shri C.C.Mitra, GM, DNBS (co-opted)
8. Shri Aloke Chatterjee, AGM, DBS
9. Smt. Abha Prasad, Director, IDMD (Member-Secretary)

Special Invitees

1. Shri H.R.Khan, CGM-in-C, IDMD
2. Shri A.K.Singh, DGM, IDMD
3. Shri. A. S. Pillai, Manager, IDMD

Resource Persons

1. Shri A.K.Mitra, Asst. Adviser, IDMD
2. Shri V.K.Srivastava, Research Officer, IDMD

Annex V
DBS OSMOS Format on State Guaranteed Bonds and Advances as Applicable to Banks

I. OTHER DEBT SECURITIES (ODS)

A. ODS - Invest in other securities where payment of interest and repayment of principal are guaranteed by State govt	**0.00**	**0.00**	**0.00**	**2.50**	**0.00**
B. ODS - State Govt guaranteed other securities(Default in payment of interest/principal)	**0.00**	**0.00**	**0.00**	**102.50**	**0.00**
II. LOANS AND ADVANCES (INCL. BILL CREDIT) (L and A)	0.00	0.00	0.00	0.00	0.00
A. (L and A) - Central Govt. / State Govt guaranteed advances	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
B. (L and A) - State Govt guaranteed advances (where guarantee has been invoked and remaining in defaults)	**0.00**	**0.00**	**0.00**	**20.00**	**0.00**
C. (L and A) - State Govt guaranteed advances (invoked guarantee continue to remain in default 100% risk weight	**0.00**	**0.00**	**0.00**	**100.00**	**0.00**

Annex VI

DBS (FID) OSMOS - Extract from Schedule 2 to the Report on Capital Adequacy prescribed for the FIs

Asset item	Book value	Margins and Provisions	Book Value (net) (3 - 4)	RW (%)	Risk adjusted value (col. 5 x 6)
(1)	(2)	(3)	(4)	(5)	(6)
A. DEBT SECURITIES					
A.1 Govt. Securities, approved and other securities guaranteed by GOI / State Government					
A.2 State Government guaranteed securities in default					
A.3Govt. Guaranteed PSU securities outside the approved borrowing programme					
B. GOVT. GUARANTEED ADVANCES					
Central / State Govt guaranteed advances					
State government guaranteed advances (where guarantee has been invoked and remaining in default)					

ANNEX VII

DBS (FID) Format of Annex to Inspection Report of the Fis* on Government Guaranteed Advances

Name of the Government	Total Govt. guaranteed accounts		Govt. guaranteed accounts classified as NPA		Govt. Guaranteed accounts classified as Standard		Accounts out of those at Col.(6) & (7) which would be NPA in the absence of Govt. guarantee, as per norms of record of recovery		Accounts out of those at Col.(8) & (9) in respect of which Govt. Guarantee has been invoked but not honoured by the Govt.	
	No. of A/cs	Amount o/s	No. of A/cs	Amount o/s	No. of A/cs	Amount o/s	No. of A/cs	Amount o/s	No. of A/cs	Amount o/s
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
A . Central										
B.State Govts.										
a.										
b.										
c.										
d.										
Etc.										
TOTAL										

* Under regulation and supervision of RBI

Annex VIII

Format for submission of credit data (Form A)
Under Credit Monitoring Arrangement

Bank Name :______________________

Ye

Statement showing limit sanctioned and balance outstanding as on ___________________ (last Friday of the quarter ended March / June / September / December in the borrowal account s of parties having working capital credit limits of Rs.10 crore or above from the entire banking system

(Rs. in thousands)

Sr. No.	Full Name of the Party (Party Code) in case of new party (New *)	Asset classification **		Cash Credit / Over-draft	Working Capital Demand Loan	Inland Bills	Packing Credit	Export Bills	Term Loan	Bills discounted in respect of sales on deferred payment basis	Letter of credit	Guar
				01	07	05	02	03	04	06	51	52
			Limit sanctioned									
			Balance outstanding									
Total for the Bank :												

* Furnish information as per the format given in the Annexure ** Standard / Sub-standard / Double / Loss

Notes :

(1) If the balance outstanding as on the date of the statement shows large variation as compared to the position as on the last Friday of the previous quarter, the reasons therefore should be explained (e.g. increasing production, increase in inventory / receivable, non-payment of dues by Governments / public sector units, etc.) (these reasons are only illustrative and not exhaustive).

(2) In the case of a consortium advance, the data called for in this statement should be furnished by each consortium member in respect of its share in the total advance and a suitable remark shall be given in the Remarks column regarding the existence of a consortium arrangement.

Annex IX: Proposed Return for State Government Guaranteed Loans and Bonds

A

Name of the Reporting Institution:

Half-Year Ended:

Part A: State Government Guaranteed Loans and Advances

Sr. No	Name of Guaranteeing State Govt	Borrower's Name	Sector	Amount of Guarantee		Outstanding Exposures Guaranteed by the State Govt		Outstanding Exposures in r/o Guaranteed Accounts Where	
				Formal Guarantee	Letters of Comfort	Funded	Non-Funded	Amount Overdue but Guarantee not invoked	Guarantee Invoked and not Honoured
1	2	3	4	5	6	7	8	7	9

Part B: State Government Guaranteed Bonds

Sr.No	Name of Guaranteeing State Govt	Name of the Issuer	Nomenclature / ISN Number of the Bond	Total Investment in Guaranteed Bonds	Amount of Overdue Bonds			Amount of Overdue Bonds Where Guarantee Invoked but not Honoured
					Principa	Interest	Total (6)+(7)	

					I			
1	2	3	4	5	6	7	8	9

Part C: Movements in Amount in Default during the half-year ended March---- /September ----

(Rs. Crore)

Outstanding stock of default as at end-March ----	Fresh defaults between end-March ---- and end-September ---- (Additions)	Reduction (during end-March ---- and end-September ----) from the stock of outstanding default as at end-March ----	Outstanding stock of default as at end-September ----
1	2	3	4

Guidance on the Return

1. Objective of the Return
The objective of the return is to capture advances made to and / or investments in bonds issued by institutions / agencies which are guaranteed by State Governments.

2. Who should file the return and to whom?
The reporting institutions will submit the duly completed return to their respective regulators:

Reporting Institutions	Regulator to whom the return to be filed
Commercial Banks	Department of Banking Supervision – RBI
All India Financial Institutions	Financial Institutions Department - Department of Banking Supervision – RBI
Urban Cooperative Banks	Urban Banks Department – RBI
Rural Cooperative Banks, Regional Rural Banks, and NCDC.	NABARD
Non-Banking Financial Companies	DNBS – RBI
Insurance Companies	Insurance Regulatory Development Authority
Provident Fund Trusts	Ministry of Labour (GOI)
Housing Finance Companies including HUDCO	National Housing Bank
Power Finance Companies, and Rural Electrification Companies	Ministry of Power (GOI)

3. Periodicity
The return is to be submitted on half yearly basis i.e. as at end of March and September every year.

4. Date of reporting
Position as on the last day of the reporting half year i.e. as on March 31 and September 30 will be reported in the return.

5. Submission
The return should be submitted within one month from the close of the reporting half year i.e. return for half year ended March 31st should be submitted latest by April 30 and for half year ended September latest by October 31.

6. Description of the Return
The prescribed return has two parts – Part A and Part B. Part A relates to information on State Government guaranteed advances and Part B captures information on State Government guaranteed bonds.

6.1 Part A- State Government guaranteed advances

i) Borrower's name: The name of the State Government Department / Agency / Special Purpose Vehicle etc to whom advances have been made should be furnished.
ii) Purpose of loan: The purpose for which the borrower has taken the advances should be briefly mentioned like irrigation, road or port construction, etc.

iii) Amount of guarantee: Guarantee may be extended by State Government either formally or informally like letter of comfort. Both types of guarantees are to be reported separately. Again, the entire amount of advances may not guaranteed by the State Government and in such a case only the guaranteed portion of the advances should be reported bifurcated into formally guaranteed and informally guaranteed. It may be that a State Government may extend several guarantees in respect of advances raised by the same borrower then such guaranteed advances may be aggregated and the consolidated position should be reported.

iv) Outstanding exposures: Aggregate outstanding position as on the last day of the reporting half year should be reported separately for funded and non-funded facilities guaranteed by the concerned State Government. The total sanctioned limit may be split into two components funded and non-funded. Funded components refer the fund based limits which can be drawn by the borrower for meeting its requirements of funds. The funded facilities are directly guaranteed by the State Government. The non-fund facilities refer to facilities like guarantees, letter of credit, acceptances, etc which are issued by the financing agency to a third party on behalf of the borrower. These are in the nature of contingent liabilities for the financing agency. In case of non-fund based facilities, the State Government acts as a counter guarantor in respect of the guarantees extended by the financing agency to the borrower.

The guaranteed exposures in respect of which the amount has become overdue but the guarantee(s) not invoked and guarantees invoked but remaining in default should be reported separately.

6.2 Part B- State Government guaranteed Bonds

i) Nomenclature / ISN number: The reporting of investments in guaranteed bonds should be on the basis of respective nomenclature of the bonds issued. Thus if the reporting institution has made investments in guaranteed bonds issued by the same issuer at different points of time with different nomenclatures then these should be reported separately.

ii) Overdue Bonds: Bonds which have become overdue as on last day of the reporting either in respect of payment of principal or interest should be reported segregated into principal and interest. The total of overdue amount (principal + interest) should include guarantee not invoked as well as guarantee invoked and remaining in default.

iii) Overdue bonds where guarantee invoked and not honoured: Here the amount of overdue bonds where the guarantee has been invoked and not honoured by the concerned State Government as on the date of reporting should be reported. If the amount reported in this coloumn is reduced from the previous coloumn where amount of overdue bonds is reported, the difference should be the amount of overdue bonds where guarantee has not been invoked.

7. General

i) All amounts should be reported in lakhs of rupees in the return

ii) ‘Default’ means non payment of interest or principal on the contracted date by the borrower or the issuer. It may that on the reporting date of the return, some advances or bonds remain overdue but payments are received after few days but before the return is forwarded to the respective regulators. In such cases, the amount should be reported in the default category but suitable remarks may be made in the footnote of the return. It may be mentioned that the default definition given here is only for the purpose of reporting in the return and does not have any other accounting / balance sheet implications.

Annex X

Extracts from the 'Report of the Working Group to Examine the Role of CIBs in Collection and Dissemination of information on Suit-filed Accounts and defaulters'

on

Section Relating to Defaults by State Governments

The Group examined whether the information on default in debt servicing of loans/bonds guaranteed by the State Governments could be mutually exchanged amongst banks and Financial Institutions through the Credit Information Bureau so as to alert them on the possible risks of further financing on the basis of the guarantees of such Statements.

The Group felt that the ground rules of level playing field, require no distinction between State Government guarantees and other forms of corporate guarantees after default. In cases where consent has been obtained from the borrowers for sharing of information in the event of default and in cases where suit has been filed against the concerned Government undertaking there should be no reservation on disclosure to others of such default.

The Group recommends that the banks/Financial Institutions which are considering fresh proposals from State Government undertakings backed by Government guarantees could ask for the track record of such States in the honouring of guarantees and obtain their consent to share such information with other banks/Financial Institutions through CIB.