

F.No. 3 (37)/FRU/2015  
Government of India  
Ministry of Finance  
Department of Expenditure  
Finance Commission Division  
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Block No.11, 5<sup>th</sup> Floor,  
C.G.O. Complex, Lodhi Road,  
New Delhi – 110 003.  
Dated, the 22<sup>nd</sup> July, 2015.

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.

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- 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 3<sup>rd</sup> quarter of a financial year, if any, would be adjusted against the borrowing space of the State for 4<sup>th</sup> 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.

*G.C. Murmu*

( G.C. Murmu )

Joint Secretary to Government of India

**F.No.3/9/2015-BPC&T**  
**Ministry of Finance**  
**Department of Economic Affairs**  
**(Bilateral Cooperation Division)**

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North Block, New Delhi  
Dated the 17th May, 2018

**OFFICE MEMORANDUM**

Subject:- Guidelines for posing, implementation and monitoring of externally aided projects – Doing away with the requirement of furnishing Debt Sustainability Certificate by the State Governments in Externally Aided Projects (EAPs) – Regarding.

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While reviewing the Fund Flow Mechanism to UTs under the Externally Aided Projects, it is observed that State Governments are bound to limit their annual borrowings to 3% of their GSDP (with some exceptions with prior approval of the Central Government only). When State Government's fiscal deficit is only within the limit permitted by their FRBM law and within limits approved by the Central Government, there is no case of debt going beyond sustainable limits as EAPs are part of the Fiscal Deficit ceiling. If EAP is not taken, the same amount of debt can be taken from other source. EAP debt adds nothing additional to the debt situation of the State.

2. Hence, in partial modification of Department of Economic Affairs' O.M. No.3/3/2004-PMU dated 09.05.2005, it has been decided to do away with the practice of furnishing Debt Sustainability Certificate by the State Governments in Externally Aided Projects.

3. Accordingly, Para 6 of DEA's aforesaid O.M. No.3/3/2004-PMU dated 9th May, 2005 stands deleted and henceforth, the State Governments will not be required to furnish any Debt Sustainability Certificate in Externally Aided Projects.

4. This issues with the approval of Secretary (EA).



**(S. SELVAKUMAR)**

Joint Secretary to the Government of India  
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1. The Secretaries of all Ministries / Departments of Govt. of India
2. All Chief Secretaries/ Administrators and Finance Secretaries of UTs
3. JS (PF-I), Department of Expenditure, New Delhi.
4. Joint Secretaries of MI, Budget and IER Divisions
5. CAAA, DEA.