

DEBT MANAGEMENT MANUAL 2022

Volume-I



**FINANCE DEPARTMENT
GOVERNMENT OF
HIMACHAL PRADESH**

March 03, 2022

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PREFACE

This 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 for providing a holistic perspective on debt related matters.

The Debt instructions and guidelines are currently available in various documents in the form of Rules 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, do not cover all facets of the debt management process. A need was felt for a comprehensive Manual to bring together all the aspects related to debt management in the State.

As part of the Himachal Pradesh Financial Management Capacity Building Programme, a Debt Management Performance Assessment (DEMPA) was conducted by the World Bank in coordination with the State Government in the year 2019. This DEMPA study report highlighted some weaknesses in the debt management system in the State. This Manual is expected to be a guidebook and would be useful to the officials of the Finance Department and other concerned officials to deal with the debt/guarantees related issues and further help improving the area of weaknesses.

I would like to place on record the supervision of the Manual by Shri Akshay Sood, Secretary (Finance) and the excellent work done by Shri Ram Dev, Research Officer, Finance Department, in preparing this manual. The Manual has evolved through extensive consultations, suggestions and comments among various stakeholders viz Planning Department, Treasury & Accounts Department, Accountant General(A&E) and Reserve Bank of India. Legal framework of this document is got vetted from Law Department. The World Bank team headed by Shri Tanuj Mathur, Senior Financial Management Specialist also provided inputs for improving the quality of this manual.

Now, This Debt Management Manual, being the first of its kind for the state is being placed in the public domain. We would welcome suggestions for improvement in this manual.

Dated: 03-03-2022
Place : Shimla

Prabodh Saxena, IAS
Additional Chief Secretary(Finance) to the
Government of Himachal Pradesh

Executive Summary

- i. This Manual intends to provide guiding material on debt management for the officials of Finance Department and other concerned officials to deal with debt and guarantees related issues of the State Government. It provides detailed procedures for contracting, recording and servicing of various loans, management of other liabilities, on-lending procedures and issuance of guarantees to eligible entities.
- ii. This Manual sets out the State Government's objectives and strategy for effective public debt management to help ensure a better borrowing programme to meet its annual financing requirements.
- iii. A conscious approach has been adopted in drafting this Manual, to shape it into a lucid and usable document. The intent is to provide the legal provisions and the institutional structure along with the prevalent procedures and practices involved with debt management.
- iv. This Manual is drafted in two volumes and finalized after due consultation with various stakeholders including the Reserve Bank of India, Accountant General(A&E) Himachal Pradesh, Planning Department and Treasury & Accounts Departments of the State Government and the Law Department. The Manual is in two volumes. Volume-I contains 9 chapters.
- v. Chapter-I is an introductory chapter which provides an overview of Public Debt, its importance and objectives of the debt management manual.
- vi. Public debt is broadly classified into two components viz Internal Debt raised from residents and institutions, within the country and External Debt raised from individuals and institutions, abroad, including multilateral institutions like the World Bank (WB), Asian Development Bank (ADB) etc. The State Governments can borrow only internal debt within the ceiling authorized by the Central Government. The State Governments receive external loans, if any, through

Government of India which appear as part of Loans from Government of India in its account. Chapter 2 provides component-wise detail and head-wise classification of debt liabilities of the State Government.

- vii. In Himachal Pradesh, there are several entities responsible for debt management. Finance Department plays the main role. Other entities are Government of India, Reserve Bank of India and Accountant General (A&E). The Planning Department is also involved in raising external loans and NABARD loans. Chapter 3 explains the present system of debt management in the State.
- viii. The debt in the State is managed through the provisions of legislations, Agreements, Rules of Business and Government Orders, issued from time to time. The legal framework of debt management operations is given in Chapter 4.
- ix. Management of public debt is dependent on an effective institutional arrangement, which clearly specifies the authority, functions and responsibilities of each stakeholder. Chapter 5 lays out the role and responsibilities of each entity in debt management.
- x. The main objective of public debt management is to avail sustainable and low-cost funding to meet the financial obligations and liquidity needs of the government. Managing public debt comprises developing a medium term debt strategy, carrying out debt portfolio and risk analysis, assess debt sustainability by analysis of various debt indicators and debt restructuring. Chapter 6 focuses on debt management practices which need to be followed by the Finance Department. This chapter provides a process to formulate a Medium Term Debt Management Strategy, Debt portfolio analysis, associated risks in public debt and management of these risks.
- xi. The State Government provides guarantees in favour of its Boards, Corporations and other entities for raising borrowing to meet their funding requirements. In the event of default,

such borrowings become State Government's liabilities. As such, every guarantee creates an explicit contingent liability and is a fiscal risk to the Government. Such liabilities also need proper monitoring in the Finance Department. Chapter 7 sets out the procedure for issuance and monitoring of contingent liabilities and fiscal risks.

- xii. In Chapter 8 of the manual, principles for governing Government on-lending discussed.
- xiii. Recording and maintaining of reliable data on borrowings of the State in a systematic manner is an essential requirement for efficient debt management. Earlier, debt records were kept in Excel files. But now the Finance Department is using a new Debt Management Module developed by the National Informatics Centre (NIC). Chapter 9 of the manual provides debt recording and reporting procedure
- xiv. In Volume-II of the manual, a chapter has been added which provides step wise procedures for raising various loans and servicing of these loan. Step wise procedures for issuance of Government guarantees and providing loans & advances to Government entities are also given in this chapter.
- xv. Copies of HP FRBM Act/Rules, various agreements with Reserve Bank of India, Standing Orders, instructions on Guarantees and other relevant documents relating to debt management are also included in Volume-II of the manual.

Chapter 1

Introduction

What is a Public Debt and why is it important?:

1.1 Public Debt consists of different borrowings of the government, used for financing its expenditure. Most governments have large fiscal needs as they intend to grow their economies and expand social services. Public debt is an effective tool for generating economic growth by expanding production and consumption choices of current and future generations. In the absence of public borrowing, governments may have to reduce productive investment or impose high taxes on current tax payers or reduce current spending.

1.2 The government borrows funds from various sources such as by raising market loans, negotiated loans from Financial Institutions (FIs), loans from the Central Government etc. Besides, the State Government also acts as a banker in respect of certain funds in the Public Accounts like Provident Funds, GIS, etc, which are to be repaid with interest to the employees. With such practice of raising loans for financing the deficit over the years, government debt accumulates and thus management of debt becomes a critical issue in fiscal management.

Need for Public Debt Policy and Debt Management Manual

1.3 Government of Himachal Pradesh has a debt management policy and strategy that sets out a clear debt management objective within a risk management framework. However, there is a need for formulating a clear public debt policy that would set the framework for management of public debt by providing the operating guidelines. To implement the public debt policy, operational issues for debt management, debt recording, documentation and reporting are required to be formulated and made operational. Hence, the need for a Debt Management Manual.

Objective

1.4 This Manual sets out the State Government's objectives and strategy for effective public debt management to help ensure a better borrowing programme to meet its annual financing requirements. This Manual intends to provide guidance material on debt management for the Finance Department, Government of Himachal Pradesh (hereinafter referred to as "Finance Department") and Line Departments of the State. It provides detailed procedures for contracting, recording and servicing of various loans, management of other liabilities, on-lending procedures and issuance of guarantees to eligible entities.

1.5 A conscious approach has been adopted in drafting this Manual, to shape it into a lucid and usable document. The intent is to provide the legal provisions and the institutional structure along with the prevalent procedures and practices involved with debt management.

Overview

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

- Chapter 2 covers the **concept** of public debt and other liabilities, debt components and their **classification** for accounting purpose.
- **Present system** of debt management is discussed in Chapter 3.
- **Legal framework** of debt management is discussed in Chapter 4.
- Chapter 5 discusses the **institutional structure** for debt management and responsibilities of each stakeholder.
- In Chapter 6, **Public Debt Management strategy** is discussed.
- Government **Guarantees** are covered in Chapter 7.
- State Government's **on-lending policies** are discussed in Chapter 8.
- **Debt recording and reporting procedures** are given in Chapter 9.
- **Annexure** at the end of the manual provides **reform initiatives** which the State Government has taken or will undertake to enhance efficiency in debt management.

In addition, **Operational Guidelines for Debt management** and necessary Annexures have been included in Volume-II of the Manual.

Chapter 2

Classification of Public Debt

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 liability is a broader term. It has been classified as Public debt contracted against the Consolidated Fund of the State and accrual of liabilities in the Public Account. 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 operations in the past which is 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 is 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 receives loans/grants from external funding agencies through Government of India (Gol). The Gol enters into an agreement with external funding agencies and transfers these loans/grants to the State as loans/grants from Gol. Hence, external debt does not appear among the components of public debt of the State; instead, they appear as part of loans/grants from Gol.

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

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. Other Miscellaneous loans
vii. WMA/OD 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 understanding.

Market Loans

2.11 These loans are raised by the State Government through auction at competitive market rates of interest. Being a banker to the State Government, Reserve Bank of India (RBI) manages such loans from open market. 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.

Compensation and Other Bonds

2.12 Such 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. The NABARD releases such loans to the State Government from Rural Infrastructure Development Fund (RIDF) which was set up by the GoI in 1995-96 for financing rural Infrastructure projects. These are tied loans, meant for specific activities such as rural drinking water schemes, soil conservation, rural roads & bridges, market yards, irrigation etc. 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 etc. 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.

Other Miscellaneous loans

2.16 The State Government also raises loans from various financial institutions such as Life Insurance Corporation (LIC), General Insurance

Company (GIC), Housing and Urban Development Corporation (HUDCO) etc from time to time.

Ways and Means Advances (WMA) from RBI

2.17 The RBI provides 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 limit of WMA and SDF is exhausted.

Loans and Advances from the GoI

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

Other Liabilities

2.19 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, 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. Accounts of these liabilities are maintained by the AG-(A&E) of Himachal Pradesh.

Classification of Public Debt for Accounting Purpose

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

Public Debt

2.21 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
 - 11 – Scheme for Special Assistance to States for Capital Expenditure

Loans and Advances given to various Government entities

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

Public Account

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

- **I - Small Savings, Provident Funds, etc.**
 - 8009 – State Provident Fund
 - 8011 – Insurance and Pension Fund
- **J - Reserve Funds**
 - 8121 – General and Other Reserve Funds
 - 8229 – Development and Welfare Funds
 - 8235 – General and Other Reserve Funds
- **K - Deposits and Advances**
 - 8342-Other Deposits
 - 8443-Civil Deposits
 - 8448-Deposits of Local Funds
 - 8449-Other Deposits

2.24 Public Account of the State comprises major heads between 8001 to 8999.

Interest Payments

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

- **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

Chapter 3

Present System of Debt Management

3.1 The present system of Debt Management in Government of Himachal Pradesh is discussed in the following paras.

3.2 There are several entities responsible for debt management, although the key player is the Finance Department. The Planning Department also plays a coordinating and advisory role. In addition, the Government of India, Reserve Bank of India and Accountant General (A&E) also play an important role in the management of Public Debt of the State. Their roles are broadly aligned with types of borrowings. A brief description is given as below:-

External Debt

3.3 The final terms & conditions of such borrowings are determined by Government of India which is the main signatory for all the external loan agreements. This borrowing is undertaken by the Government of India and proceeds of the same are passed on to the Government of Himachal Pradesh as domestic debt [which at present is 10% of the total amount given as block loan, rest being grant]. At State Government level, the Planning Department, concerned Line Departments and their Project Implementing Agencies play a leading role in selecting the creditor/International Aid Agencies and participating in the project negotiation with the creditor. The Finance Department assesses the fiscal space and debt sustainability while approving such borrowings. At State level, the project is approved by the State level Screening Committee and then the project sent to the Department of Economic Affairs in the Ministry of Finance, Central Government, for approval before the loan is signed and appropriate orders are issued. The loan records are kept with the Controller of Aids, Accounts and Audits(responsible for servicing the loans to the external creditors) and the Accountant General(A&E) is responsible for repayments from Government of Himachal Pradesh to the Government of India.

Market Loans

3.4 Borrowing from the open market is undertaken by the Reserve Bank of India on behalf of Government of Himachal Pradesh; the time and quantum of borrowing is determined by the Government of Himachal Pradesh. Debt recording and repayments of this debt are undertaken by Reserve Bank of India on behalf of the Government of Himachal Pradesh.

NABARD Loans

3.5 The decision of borrowing such loans is taken by the Finance Department; the transactions are managed by the Planning Department with the respective line departments. Debt recording and repayments of this debt are undertaken by the Finance Department.

NCDC Loans

3.6 Loan from National Co-operative Development Corporation (NCDC) is raised by the Line Department (Department of Co-operation) and deposited in the Consolidated Fund of the State Government. The Finance Department passes on such amounts to the Line department through budgetary mechanism on On-lending basis. Repayment of this debt is undertaken by the department of Co-operation after approval of the Finance Department.

NSSF Loans

3.7 The Government of Himachal has discontinued loans from NSSF from 1st April, 2016, although there are outstanding loans whose records are maintained at the Accountant General (A&E) and Finance Department. Repayments of these loans are made by the Reserve Bank of India, on behalf of the State Government.

Other Miscellaneous Loans

3.8 There is very small outstanding amount of other loans which were raised during earlier years, from LIC, GIC etc. These loans will be fully repaid during next two – three years. Repayments of such loans are being made by the Finance Department and AG-A&E.

Public Account Liabilities

3.9 Borrowing through the Public Accounts are mainly Provident Fund receipts which have an element of automaticity and are managed by Accountant General (A&E), which also keeps records of individual employees who are account holders.

Chapter 4

Legal Framework

4.1 This Chapter set out the legal framework for State Government borrowing, servicing of debt obligations and debt management operations.

4.2 The debt in the State is managed through the provisions of the legislations, Agreements, Rules of Business, Government Orders, issued from time to time which are as follows:-

- (i) The Constitution of India;
- (ii) The Himachal Pradesh Fiscal Responsibility and Budget Management Act, 2005;
- (iii) Agreement of the State with the Reserve Bank of India;
- (iv) Rules of Business, Delegation of Powers and Government Orders of the State

Provisions of Constitution of India

4.3 **Article 151 (2)** provides that ‘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.

4.4 **Article 202 (1)** provides that “The Governor shall in respect of every financial year cause to be laid before the House or Houses of the Legislature of the State a statement of the estimated receipts and expenditure of the State for that year, in this Part referred to as the “annual financial statement”.

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 (AFS) 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.

4.5 **Article 246 (3)** of the Constitution of India grants powers to the State to make laws. The provisions of the Article are as under:-

“Subject to clauses (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”).”

4.6 As per **Article 266 (1)** of the Constitution of India, all revenues received by the Government of a State, 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”.

4.7 **Article 266 (2)** provides that “All other public moneys received by or on behalf of the Government of India or the Government of a State shall be credited to the public account of India or the public account of the State, as the case may be”

4.8 **Article 293 (1)** provides that as 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.

4.9 **Article 293 (2)** provides that “The Government of India may, subject to such conditions as may be laid down by or under any law made by Parliament, make loans to any State, or, so long as any limits fixed under Article 292 are not exceeded, give guarantees in respect of loans raised by any State, and any sums required for the purpose of making such loans shall be charged on the Consolidated Fund of India.”

4.10 **Article 293 (3)** provides that “A State may not without the consent of 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.”

4.11 **Article 293 (4)** provides that “A consent under Clause (3) may be granted subject to such conditions, if any, as the Government of India may, think fit to impose.”

4.12 In essence, Article 293 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, Government of India in the form of Net Borrowing Ceiling (NBC) for the year, covering all sources of borrowing. In practice, the State has to take the consent of the Government of India for its borrowings.

Himachal Pradesh Fiscal Responsibility and Budget Management Act 2005

4.13 As per the power vested under Article 246 (3) of the Constitution of India, the State enacted the Himachal Pradesh Fiscal Responsibility and Budget Management Act, 2005 to ensure fiscal discipline and set the limits on borrowings in the State. [Refer Annexure-I, Vol-II for HPFRBM Act/Rules/Amendments]

Agreement with the Reserve Bank of India

4.14 The State Government has entered into an Agreement with the RBI [Refer Annexure-II, Vol-II] 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 new loans

4.15 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 [Refer Annexure-III, Vol-II] are:

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

Rules of Business, Delegation of Power and Government Orders

4.16 **Article 154** of the Constitution of India confers upon the Governor of the State, the executive power of the State. Article 154 reads as under:-

“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 this Constitution.”

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

4.18 **Standing orders** issued, in pursuance of Clause 26 & 27 of the Rules of Business of the Himachal Pradesh, 1971, from time to time stipulates the authorization for raising loans, issuing guarantees and expenditure sanction (Refer Annexure-IV, Vol-II for latest standing orders).

Chapter 5

Institutional Arrangement

5.1 Management of public debt is dependent on an effective institutional arrangement, which clearly specifies the authority, functions and responsibilities of each stakeholder.

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

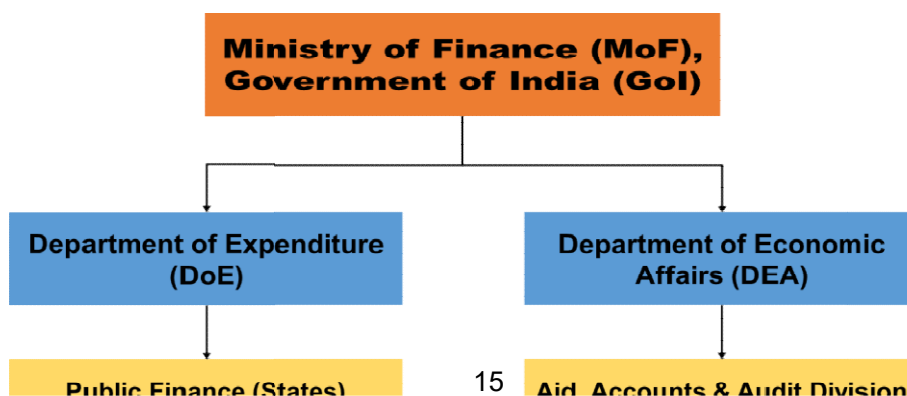
- Ministry of Finance (MoF), Government of India (GoI)
- Finance Department, Government of Himachal Pradesh
- Administrative Departments, Government of Himachal Pradesh
- Reserve Bank of India
- Accountant General (A&E)
- Accountant General (Audit)

5.3 Above mentioned institutions have a well-defined role in the management of public debt of the State while ensuring operational independence. The roles and responsibilities of each institution are elaborated in the subsequent sections of the Chapter.

Role of Ministry of Finance

5.4 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



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

Department of Expenditure(DoE)

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

- Determine the Net Borrowing Ceiling (NBC)
- Issue consent for raising loans, under Article 293 (3) of the Constitution of India
- Monitor debt sustainability of the State

Department of Economics Affairs(DEA)

5.7 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 or grant 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

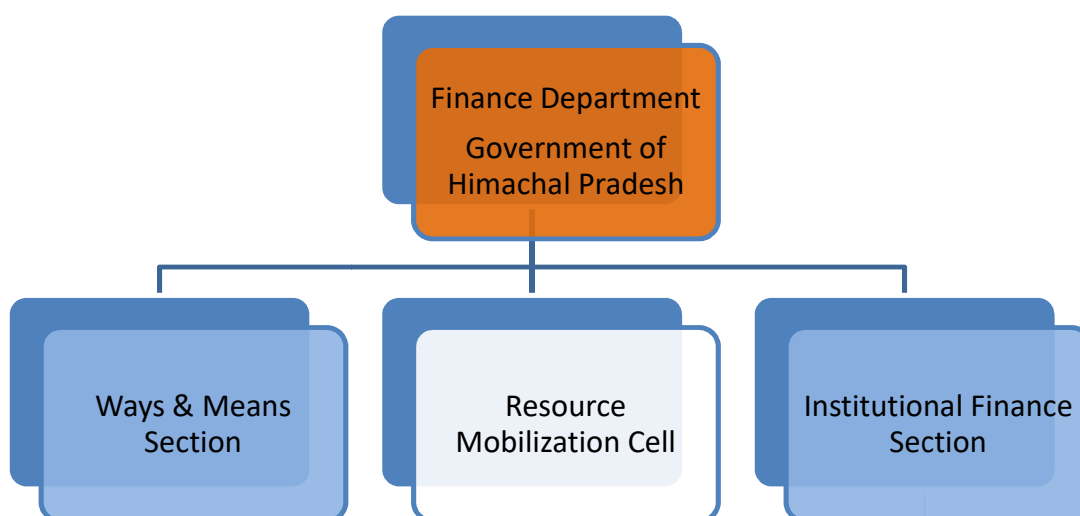
Role of Finance Department

5.8 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.

5.9 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 communication with all the stakeholders involved in debt management. It collates data and information from stakeholders and keeps proper record in a consolidated manner.

5.10 The various Sections of Finance Departments involved in management of debt are as below.

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



Finance – Ways & Means Section [WMS]

5.11 Finance – Ways & Means Section within Finance Department is involved in management of debt.

Resource Mobilization Cell [RCM]

5.12 Resource Mobilization Cell deals with cash and debt management functions of the State. The Ways & Means Section helps the Cell in carrying out debt management operations including recording, reporting and servicing of debt. The Cell undertakes the following activities:

- Cash flow forecasting and overall cash management for the State Government
- Assessment of borrowing requirements
- Preparation of borrowing calendar
- Identification of sources of borrowing
- Determine tenure of loans
- Guarantees Management
- Other matters related to public debt management

Institutional Finance Section [IFS]

5.13 Institutional Finance Section is involved in overseeing the functions of Public Sector Undertakings (PSUs) which raises loans on State Government Guarantees.

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

Figure 3: Role and Responsibilities of Finance Department



5.15 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
- Raise funds from market and various other sources at competitive rates
- Negotiate loans from various sources

- Monitor disbursement of loans, reconcile and validate the amount with relevant stakeholders
- Prepare debt servicing schedule as and when loan is taken
- Arrange funds for repayment of principal and interest payment

Cash management

- Prepare cash flow forecasts based on receipts/expenditure estimates
- Arrange cash to meet liquidity requirements of the State Ensure maintenance of required minimum balance in State's account with RBI
- Monitor and effectively use SDF, WMAs and OD facilities 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, Instructions 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

Recording of Debt Data

- 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

Risk Management

- Monitor and track key debt indicators against the targets
- Undertake Debt Sustainability Analysis (DSA) 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

- Negotiate and finalise terms and conditions of loan being given to various Government entities
- Finalise loan agreements and sanction loans
- Disburse loans
- 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

Role of Line Departments

5.16 Role of line departments with respect to debt management involves preparation of project proposal for seeking loans. The major role and responsibilities of Line Departments are as follows:

- Prepare DPR/ project proposal for which funding is required
- Submit DPR/ project proposal for 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/Planning Departments, status report and necessary data/information on implementation of project for effective tracking of loan utilization

Role of Reserve Bank of India

5.17 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. It assists the State in raising resources from the market.

5.18 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
- Record and maintain data on SDLs and loans from NSSF
- Publish report on key public debt indicators

Role of Accountant General (A & E)

5.19 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, Reserve Fund and deposits & advances etc.

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

- Record and maintain information on debt servicing for loans from Gol and loans from LIC of India, GIC of India, Oriental Insurance Company, United India Insurance Company and National Insurance Company etc
- Prepare debt servicing schedule for loans from Gol and other Financial Institutions detailed above and communicate to Finance Department
- Issue advice to RBI on servicing of loans from Gol, as per schedule
- Making interest payment and principal repayment of LIC, GIC etc as per schedule, on behalf of the State Government
- Update 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
- Keep proper record of Other liabilities of the State Government under Public Account and calculate interest on interest bearing liabilities
- Provide information on public debt and other liabilities to Finance

Department on need basis

- Collect and record data on Government guarantees based on the information provided by 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
- Maintain the account of the State Government and publish debt reports in the Annual Finance Accounts.

Role of Accountant General (Audit)

5.21 The Accountant General(Audit) is responsible to carry out periodic audit of transactions in various departments. On the basis of audit observations made by the Accountant General(Audit), the Comptroller and Audit General of India publishes a report on State Finances every year. The report also contains financial reporting which provides an overview and status of State Government's compliance with various financial rules, procedures and directives.

5.22 In addition, a separate report containing the findings of performance audit and report containing observation on audit of statutory Corporations, Boards and Government companies are prepared.

5.23 These reports also contain the observation on debt management by the State Government.

Chapter – 6

Public Debt Management

6.1 The main objective of public debt management is to avail sustainable and low-cost funding to meet the financial obligations and liquidity needs of the government. Managing public debt comprises developing a medium term debt strategy, carrying out debt portfolio and risk analysis, assess debt sustainability by analysis of various debt indicators and debt restructuring. This chapter focuses on Debt Management practices which need to be followed in the Finance Department.

Medium Term Debt Strategy (MTDS):

6.2 MTDS involves raising of the required funds, after carrying scenario analyses, for meeting requirements of the State at the lowest possible cost, consistent with a desirable degree of risk.

6.3 To achieve the objectives of the MTDS, the Finance Department will follow the process as below:-

Conduct Scenario Analysis: The Finance Department to conduct a scenario analysis for determining future cost of borrowing. 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:

Key assumptions: The Finance Department may 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)

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 indicators 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.

Scenario Analysis: The Finance Department 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.

6.4 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.

6.5 Finance Department shall also monitor and analyse its debt 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 1: Key Parameters Pertinent to Debt Management

Sl. No.	Indicator	Interpretation/ desirable indicator
1.	Debt to Gross State Domestic Product (GSDP) ratio [Debt/GSDP]	This ratio shows the ability of a State Government to pay back debt. Decreasing ratio signifies State's improving debt serviceability
2.	Debt trend Analysis [Growth rate in outstanding debt]	Decreasing growth rate of outstanding debt over a period reflects decrease in debt burden of the State and improvement in debt sustainability
3.	Debt to Revenue Receipt Ratio [Debt/RR]	Decreasing ratio over a period of time indicates improvement in debt serviceability.
4.	Rate of growth of debt to GSDP Growth	For debt sustainability, the rate of growth of public debt should be lower than the growth of GSDP

Debt Portfolio Analysis

6.6 The stock of various instruments of borrowing that the government relies on, is called the debt portfolio. Each source of debt instrument carries a varying degree of cost and risk. Therefore, the Finance Department is required to maintain its debt portfolios in a prudent manner. To handle its debt profile better, the State should conduct a portfolio analysis which forms a powerful tool in shaping the present and future debt structure.

6.7 While undertaking a portfolio analysis, the Finance Department 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 2: Interest Rate Indicators

Sl. No.	Indicators	Interpretation
1	Average Interest Cost (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) to Revenue Receipt (RR) ratio [IP/RR]	The ratio indicates the portion of revenue receipts being utilised for servicing of debt. Declining levels of IP to RR ratio is a good indicator for overall debt sustainability.
3.	Interest Payment (IP) to Revenue Expenditure (RE) ratio [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 3: Maturity Profile Indicators

Sl. No.	Indicators	Interpretation
1	Weighted Average Maturity (WAM) in years	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 / total debt	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.

Formula to calculate WAM: It is calculated by determining the weight of each maturity in average, multiplying by maturity period and summing weighted maturities.

Associated Risks in Public Debt of State

6.8 At an overall level, the prominent risks associated with public debt are; **Market risk** associated with the fluctuation in market prices, **rollover risk** linked to refinancing of the debt when it is about to mature, **liquidity risk** i.e. insufficiency of funds to meet the routine need of the government, **credit risk** – the risk of non-performance of borrowers arising due to default in payment and **operational risk** like transaction error, natural disaster, legal risk, political risk etc.

6.9 The Finance Department 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 4: Indicators for Measuring Risk in Public Debt Management

Sl. No.	Risk Type	Measures Used	Description
1	Market Risk	Interest rate risk	Low fixed rate to floating rate debt ratio indicates more exposure to potential interest rate risk
		Creditor-concentration risk	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	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.
		Residual Maturity [@]	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 [#]	
		Short-term Debt	High short-term debt indicates high rollover risk as well as interest rate risk.
3	Credit Risk	Credit risk assessment	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

6.10 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

6.11 The State may carry out an analysis of the debt sustainability by considering different parameters. The different indicators that need to be calculated for debt sustainability analysis and desirable conditions and their associated interpretations are listed in the table below.

Table 5: Debt Sustainability Indicators

Sl. No.	Indicators	Desirable indicator for sustainability	Interpretation
1	Rate of growth of public debt(D) and rate of growth of nominal GSDP (Y)	$D < Y$	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) and real output growth(g)	$r < g$	
3	Primary Balance (PB)	PB should be in surplus. In case of deficit, it should not be rising faster than GSDP	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	Revenue Balance (RB)	RB should be in surplus and adequate to meet the IP	
5	Revenue receipts(RR) as per cent to GSDP (RR/GSDP)	RR/GSDP should increase over time	Increase in revenue receipts along with GSDP will increase debt servicing capability of State and reduce debt burden
6	Public debt to revenue receipts (D/RR)	D/RR should decline over time	Either through increase in revenue receipts or decrease in total outstanding debt, debt burden shall decrease
7	Interest payments (IP) as a per cent to GSDP (IP/GSDP)	IP/GSDP should decline over time	This indicator reflects the decreasing cost of debt as compared to GSDP over a period of time.
8	(IP/RR)	IP/RR should decline over time	Interest payment versus revenue receipts indicates the increase in revenue capacity of State to meet the cost of borrowing
9	Ratio of debt redemption (principal and interest (REP)) to Gross Borrowing (GB) (REP/GB)	REP/GB should be falling over time	High ratio of debt redemption is indicative of a smaller proportion of borrowed funds available for productive uses.
10	Net borrowing (NB) as a ratio of total gross borrowing (NB/GB)	NB/GB should be declining	

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 Balance = Revenue Balance – interest payments

Debt Restructuring

6.12 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. The State Government can carry out debt restructuring as per any Gol scheme on an ad-hoc basic and on certain terms and conditions.

6.13 Gol had formulated a Debt Swap Scheme in 2002-03 in view of the mounting burden of interest payments on the States, to supplement State's efforts towards fiscal management. The scheme capitalized on the low interest regime, to enable States to prepay expensive loans (contracted from Gol) by using low coupon bearing small savings and open market loans. The scheme was operational till 2004-05. Apart from debt swapping, Himachal Pradesh State Government also restructured its various debt instruments [Loans from LIC of India, HUDCO, HDFC, NCDC, HPRIDC, HPSEB and NABARD] during the years 2003-04 to 2009-10 by prepaying high cost debt or re-setting the higher interest rates to best possible lower rates. Now, the only other option available to the State is to buy-back some or all high cost loans from the market.

6.14 There are two options to deal with high cost loans, one to pre-pay them and 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 is converted into long term debt. This process could be done through mutual negotiation with the major investors.

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 their fund requirements because of resource constraints. It may help them in raising the needed funds by providing State guarantees on their behalf, to the lending institutions.

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 normally provided only for capital projects administered by respective departments.

7.3 The Government of Himachal Pradesh presently issues guarantees keeping in view the overall limit fixed as per Himachal Pradesh Fiscal Responsibility and Budget Management Act, 2005. The limit, at present, is 40% of the Revenue Receipts of the State Government. Such guarantees are supervised by the Finance Department. The Government may provide guarantees when it is necessary to do so, in public interest. To enforce discipline and to avoid invocation, new guarantees are normally not issued for public enterprises which have defaulted in principal repayments and/or payment of interest

Eligible Institutions

7.4 Government provides guarantees 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

Responsibility of extending guarantees:

7.5 Finance Department is responsible for managing and advising on government guarantees. All stakeholders [Public Sector Undertakings/Entities to whom guarantee is given] are responsible for recording, monitoring, reporting these guarantees and timely payment of loan amount. The Finance Department has issued instructions on guarantees which relate to appraisal of the underlying projects, determination of guarantee commission, follow up of realization of guarantee commission, invocation of guarantees, maintenance of records, compilation of data, monitoring of the ceiling prescribed which have been shared with all departments of the State. [Refer Annexure-V, Vol-II]

Evaluation of fiscal risks in guarantees:

7.6 The respective Administrative department and the Finance department evaluate the fiscal risk of the guarantee portfolio on an annual basis to ensure their timely redemption.

Monitoring Contingent Liabilities:

7.7 This section sets out the procedure for monitoring contingent liabilities and fiscal risks. Contingent liabilities are liabilities incurred by the government due to a triggering mechanism or event. These contingent liabilities may be explicit, such as in the case of financial guarantees extended by the government to support an infrastructure project. They may also be implicit, as may be the case with government financial institutions that do not have sufficient financial assets to cover investments or small savings from individuals and where government support is needed to preserve the value of these savings.

7.8 The Finance Department should establish a system to collect information from all government agencies in connection with contingent liabilities and to maintain the record of all such liabilities. These may be monitored and assessed on the basis set out for government guarantees. The record to be kept will include:

- Government guarantees
- Explicit contingent liabilities
- Implicit contingent liabilities

Chapter 8

Government's on-lending

Principles for On-lending:

8.1 On-lending of the government indicates the lending of various kinds of loans and advances to various institutions with the obligation to repay the same, with or without interest. The government, from time to time extends various kinds of advances to institutions and agencies as financial assistance. The on-lending policies of the government are governed by the following broad principles-

- The government's on-lending is governed by principles of sound financial management.
- The government will normally adopt normative principles in respect of repayment conditions including interest.
- In the case of on-lending out of loans negotiated by the government from financial institutions, the government may make special arrangements to fix the term & conditions.

Approved government agencies:

8.2 The government's on-lending may be limited to the following agencies and bodies:

- Public Sector Enterprises, under the Government of Himachal Pradesh.
- Authorities, Boards, Agencies and Entities as may be decided by the Government.

Monitoring of on-lending of the government:

8.3 Finance Department shall monitor the on-lending activities of the government. For this purpose, Finance Department may utilize the services of concerned government departments in monitoring the performance in the form of timely servicing of loans and interest by such institutions. Periodical reports in the form of quarterly/half- yearly/yearly reports on the position of loans shall be monitored.

8.4 In the case of future on-lending, the previous performance in servicing of loans shall be duly considered by the government.

Policy for loan defaults:

8.5 If the on-lent institution defaults in servicing of loans, the government shall take appropriate action for recovery of loans by various possible measures including the following measures-

- Stoppage of grants from the government
- Adjustment of loans against grants
- Other measures as deemed fit.

Chapter – 9

Debt Recording and Reporting Procedure

9.1 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 helps the State Government in conducting debt analysis accurately.

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

Data sourcing and validation

9.3 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 debt, source-wise
- Listing of data sources
- Capture data from the data source
- Data validation through manual checks
- Seeking clarifications from respective stakeholders on data discrepancies
- Correction of data as per clarifications provided by the respective stakeholders
- Sanitized data

Recording

9.4 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, lender, amount, conditions attached etc. from the loan agreement
- The terms of loan, including effective date, maturity date, interest rate, moratorium, etc., from loan agreement.

Reporting and analysis

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

- Specific reports for budget documents
- Basic debt indicators for examining debt sustainability
- Debt servicing schedule at aggregate level and for individual loans
- Aggregate outstanding debt
- Other reports as required.

9.6 List of various reports that may be generated are as follows:

- Maturity profile
- Payment schedule
- Interest rate profile
- Reports on guarantees
- Reports on loans advanced by the State Government

9.7 The Finance Department may use the new Debt Management Module developed by the National Informatics Centre (NIC) and any other approved Module/Programme for debt recording and management system.

9.8 While using the new Debt Management Module, the Finance Department will ensure implementation of user defined access control.

9.9 The Debt Management Module is hosted on NIC Cloud system where business continuity and disaster recovery plan for all web based applications already exists.

9.10 AG (A&E) Himachal Pradesh 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 will periodically reconcile its data with AG (A&E) to avoid any inconsistency.
