



# GOVERNMENT GUARANTEE POLICY, 2022

**MINISTRY OF FINANCE**  
**DEPARTMENT OF ECONOMIC AFFAIRS**  
**BUDGET DIVISION**  
**NEW DELHI**  
**MAY, 2022**  
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**F. No. 12 (13)-B (SD)/2020-Part  
Government of India  
Ministry of Finance  
Department of Economic Affairs  
(Budget Division)**

**Room No. 221 A, North Block  
New Delhi dated the 17<sup>th</sup> May, 2022**

**OFFICE MEMORANDUM**

**Subject: Government Guarantee Policy, 2022-reg.**

The existing Government Guarantee Policy has been revised keeping in view various changes that have occurred in the recent past. The revised Policy is issued herewith in supersession of the existing Policy. The copy of the same may be downloaded from the website: [www.dea.gov.in](http://www.dea.gov.in). This will serve as an overall guideline along with Chapter 11 on Government Guarantees of the General Financial Rules, 2017 for considering guarantee proposals from Ministries/Departments.

2. All the Ministries/Departments are, therefore, requested to ensure that, henceforth, guarantee proposals sent to this Division are in accordance with the provisions of the revised Policy.

3. This issues with the approval of Finance Minister.

  
(Ashish Vachhani)

**Joint Secretary to the Government of India**

**To**

1. All Secretaries to the Government of India
2. All Financial Advisers of Ministries/Departments
3. The Comptroller & Auditor General of India, 10-Bahadurshah Zafar Marg
4. The Controller General of Accounts, Ministry of Finance, Mahalekha Niyantrak Bhawan
5. Member (Finance), Ministry of Railways, Rail Bhawan
6. Member (Finance), Deptt. of Telecommunications, Sanchar Bhawan
7. Additional Secretary (MBC), DEA



**Copy to:**

1. Secretary (Economic Affairs)
2. All the officers of Budget Division, DEA
3. Policy file in the SD Section, Budget Division, DEA
4. Finance Library, North Block, New Delhi (5 copies)

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# GOVERNMENT GUARANTEE POLICY, 2022

## Chapter I

### Introduction

Article 292 of the Constitution of India (**Annexure-I**) extends the executive powers to the Union Government to give guarantees on the security of the Consolidated Fund of India, within such limits, if any, as may be fixed by the Parliament.

2. The limit on giving guarantee by the Central Government has been prescribed under Section 4(1)(c) of Fiscal Responsibility and Budget Management (FRBM) Act, 2003 (**Annexure-II**) which states that "The Central Government shall not give additional guarantees with respect to any loan on the security of the Consolidated Fund of India in excess of one-half percent of gross domestic product, in any financial year". If this limit is exceeded owing to any unforeseen circumstances, in terms of Section 7(3)(b) of FRBM Act, 2003, the Finance Minister is required to make a statement in both Houses of Parliament explaining the deviation, including whether the deviation is substantial and relates to the actual or the potential budgetary outcomes and the remedial measures the Central Government proposes to take.

3. **General legal provisions relating to guarantees:** In terms of the Indian Contract Act, 1872, "contract of guarantee" is a contract to perform the promise, or discharge the liability, of a third person in case of default. Where only two parties are involved, i.e. where one party promises to save the other from loss caused by the conduct of the promisor himself, or by the conduct of any other person, such a contract is called a "contract of indemnity". Sections 124 to 147 of the Indian Contract Act (**Annexure-III**) specify the common provisions relating to the law of contracts of indemnity or guarantee.

4. Besides the common law provisions on contracts of guarantee, administrative instructions have also been issued by this Department, from time to time, in respect of issue of sovereign guarantees. The basic instructions date back to May 1969 wherein it was stipulated that the guarantee proposal must be justified in public interest.

5. Prior to December 1994, Administrative Ministries/Departments took on such contingent liabilities up to specified financial limits and conditions without reference to Ministry of Finance or any centralized authority. Subsequently, the guarantee

approving authority was centralized in the Ministry of Finance, Department of Economic Affairs (Budget Division). Once the guarantee is approved by Ministry of Finance, the guarantees are executed and monitored by Administrative Ministries, who are also required to report the status in this regard on an annual basis till they are invoked or are obliterated. From 2002, a decision has also been taken not to give guarantees in favour of private companies/ institutions.

6. Till 1988, there was no uniform practice prescribed or being followed in respect of levy or collection of guarantee fee. In January 1989, the Finance Minister suggested that guarantee fee should be collected in respect of all guarantees. However, the guarantee fee was being prescribed on case-to-case basis. In April 1992, uniform rates of guarantee fee were prescribed by the Ministry of Finance in respect of internal borrowings, inter alia, @ 1% per annum on borrowing by Public Sector Enterprises including the Cooperative Sector and @ 2.5% on borrowings by other sectors. However, in respect of external borrowings, guarantee fee continued to be determined on a case-to-case basis by the ECB Division, in consultation with the Budget Division. In June 1993, a uniform guarantee fee of 1.2% per annum on the outstanding amount of principal plus interest was prescribed even in respect of external borrowings. Budget Division (DEA), Ministry of Finance issued a comprehensive policy on Government Guarantees on 22.9.2010 prescribing objectives of giving guarantees and guidelines for examining the proposals by the administrative Ministries/Departments.

7. Guarantees are contingent liabilities that arise on occurrence of an event covered by the guarantee. Since guarantees result in increase in contingent liability, they should be examined in the same manner as a proposal for a loan, taking into account, inter alia, the credit-worthiness of the borrower, the quantum of risks sought to be covered by a sovereign guarantee, the terms of the borrowing, justification and public purpose to be served, probability of invocation and possible costs of such liabilities, etc. Government will be liable to pay in case the entity/organization defaults in respect of which guarantee is given.

8. General Financial Rules have since been revised during 2017. Chapter 11 of the General Financial Rules, 2017 (Annex-IV) prescribes basic framework of the rules regulating the entire gamut of Sovereign guarantees, including guidelines for grant, review, accounting and monitoring of sovereign guarantees, submission of periodical reports, etc. With the amendment of rules governing Government Guarantees, it has become necessary to revise the existing Guarantee Policy to incorporate the amended provisions of General Financial Rules as well as to provide all comprehensive instructions on the subject at one place.

9. **Objectives of Government Guarantee:** Government guarantee is normally extended for the purpose of achieving the following objectives:-

- (i) To improve viability of projects or activities undertaken by Central Government entities with significant social and economic benefits;
- (ii) To enable Central Public Sector Companies to raise resources at lower interest charges or on more favorable terms;
- (iii) To fulfill the requirement in cases where sovereign guarantee is a precondition for concessional loans from bilateral/multilateral agencies to Central Public Sector Companies/Agencies.

#### **10. Classification of guarantees**

For the purpose of record keeping, guarantees shall be classified as under:-

- (i) Guarantees given to RBI, other banks and industrial and financial institutions for repayment of principal and payment of interest, cash credit facility, financing seasonal agricultural operations and/or providing working capital to companies, corporations, cooperative societies and banks;
- (ii) Guarantees given for repayment of share capital, payment of minimum annual dividend and repayment of bonds or loans, debentures issued or raised by the statutory corporations and central public sector undertakings;
- (iii) Guarantees given in pursuance of agreements entered into by the Government of India with international financial institutions, foreign lending agencies, foreign governments, contractors, suppliers, consultants etc., towards repayment of principal, interest and/ or commitment charges on loans etc., and /or for payment against supplies of material and equipment;
- (iv) Counter guarantees to banks in consideration of the banks issuing letters of credit or authority to foreign suppliers for supplies made or services rendered.
- (v) Guarantees given to Railways for due and punctual payment of dues by Central Government companies or corporation;
- (vi) Other guarantees not covered under above five classes.



## Chapter II

### Submission of Guarantee Proposals by Ministries/Departments

#### 1. Prioritization

(i) The volume of Sovereign guarantees undertaken during a financial year is limited as per Section 4(1)(c) of the Fiscal Responsibility and Budget Management Act 2003, which stipulates that the Central Government shall not give guarantees aggregating to an amount exceeding 0.5% of the GDP in any financial year.

(ii) Thus, considering the limited space, the proposals seeking Government guarantees require prioritization at the level of administrative Ministry/Department before submitting to Budget Division. Following procedure must be followed by Ministries/Departments:

- a) The Ministries/Departments/Credit Divisions of DEA should send their prioritized list of proposals for guarantees before 30th April every year to the Budget Division (DEA). This will provide a broad idea of tentative guarantee space that would be utilized during the year. However, this intimation should not be construed as approval of guarantee.
- b) The Ministry/Department/Credit Divisions (DEA) should examine each proposal on competing priorities of the Ministry/Department/Credit Divisions (DEA) as well as on the priorities of the Government as a whole and include only such proposals in the list to be sent to Budget Division, where the loan agreement could be signed during the financial year.
- c) Ministries/Departments should examine proposals keeping in mind the objectives of Government Guarantees outlined in Para 9 of Chapter 1 of this Policy, before sending proposals to DEA.
- d) Along with the list of prioritized proposals for the ongoing Financial Year, Ministries/Department/Credit Divisions (DEA) must also enclose a statement of review of its existing guarantees in the format as per GFR 25. The review must include reconciliation of figures of outstanding loan, timely repayment of loan/interest, timely payment of guarantee fee etc. The statement must be signed by DS/Director (Finance) of the Ministry/Department or DS/Director, Credit Divisions, DEA, as the case may be.



## 2. Examination

- a. Risk associated with assumption of a new contingent liability/guarantee proposal, including the probability of future payouts should be thoroughly assessed by the concerned Administrative Ministry/Department or Credit Divisions of Department of Economic Affairs recommending the proposal. Such assessment should be undertaken even when it has already been decided by a higher authority to provide guarantees. The assessment should reveal an accurate picture of the financial condition of the entity to be guaranteed; risks associated with implementation of the project/ scheme, etc. This information would be useful to estimate the funds needed to meet associated contingent liabilities if the need should arise, in current or future budgets.
- b. With a view to enable the Ministry of Finance to examine cases of guarantees and extension thereto, all Ministries or Departments should furnish data of certain operational parameters of the Public Sector Undertaking or Entity, as given in GFR 26. In case the accounts of the Central Public Sector Undertaking or Entity have been audited by the Comptroller & Auditor General of India, the effect of the comments of the Comptroller & Auditor General of India on the Central Public Sector Undertaking's profitability should be brought out. Further, where Board for Industrial and Financial Reconstruction (BIFR) targets have been assigned or the Cabinet directions issued to the Company, the actual vis-à-vis targets for the preceding three years should be indicated. The data should be furnished in the Form GFR 26 along with the proposal for guarantee.
- c. Ministry/Department/Credit Divisions (DEA) shall examine the proposal of guarantee in consultation with Financial Adviser and recommend to Budget Division only when they are satisfied that the intended benefits (public interest) of the project outweigh the risk associated with assumption of the contingent liability in the form of guarantee. Ministries/Departments shall ensure that the proposal is in accordance with the objectives of Government Guarantee as per Rule 276 of GFRs 2017. The guarantee proposals shall be uploaded on the Guarantee Portal by attaching the related documents. Process flow of guarantee proposal on the portal has been enclosed at **Annexure-VI**.
- d. The proposal submitted to Budget Division (DEA) for approval of Guarantee must contain detailed justification for assuming contingent liability clearly highlighting the public interest going to be served, risk profiling and evaluation of the CPSU/Central Government entity as envisaged under Rule 277 (iii) of General Financial Rules, 2017 and data related to operation parameters of the CPSU/entity as per Form GFR 26.

- e. Proposals seeking extensions of guarantee in subsequent years, once approved, would also be treated as fresh guarantee proposals and are required to be examined thoroughly by the Ministry like any other guarantee proposal.
- f. Credit Divisions (DEA) must ensure that the proposals received from the administrative Ministries/Department have all the required details and the same has recommendations of the Financial Advisers of the Administrative Ministry/Department. In case the proposal is directly moved by Credit Divisions (DEA), it must be examined as stated above under sub-para (ii) by the respective Credit Division (DEA) and submitted to Budget Division with the recommendations/comments of Financial Adviser, Ministry of Finance.
- g. Before referring the guarantee proposals to Budget Division, Ministry of Finance, Financial Advisers of the concerned Ministries/ Department /Credit Divisions (DEA) shall assess the risk of the proposed guarantees. For the purpose of assessing the risk of the proposal, a model framework is suggested in **Annexure-VII** may be used. After evaluation of risks, proposals will be placed under the category- "A" or "B". Ministries/Departments shall send all relevant documents used for calculation of risk rating to Budget Division, Ministry of Finance along with the proposal for guarantee.

**3. Guidelines for grant of Government of India Guarantee:** The following guidelines should be followed by Budget Division, Ministry of Finance for granting government guarantee or counter guarantee:

- (i) After examination in the concerned Ministry or Department or Credit Division of Deptt. of Economic Affairs, all proposals for extending guarantees shall be referred to Budget Division for approval. Each proposal of Government guarantee forwarded by Ministry will be examined by Budget Division, Department of Economic Affairs, Ministry of Finance for a final decision. No guarantees shall be given without the approval of Budget Division.
- (ii) Guarantees shall be given only for principal amount and normal interest component of the loan. If any other charges or fees or penal interest need to be included in the guarantee cover, specific approval of Ministry of Finance shall be obtained.
- (iii) Government guarantees will be extended to only central public sector companies/ agencies.

- (iv) Guarantee once approved, shall not be transferable to any agency without the prior approval of Budget Division, Department of Economic Affairs, Ministry of Finance.
- (v) Government Guarantees for State Public Sector undertaking/State entities is not available, however in exceptional cases if the Government Guarantee is essential, approval of CCEA/Cabinet is mandatory.
- (vi) Government guarantees shall not be provided to private sector companies/institutions.
- (vii) Government guarantees should not normally be extended for external commercial borrowings.
- (viii) Government guarantees may be given on all soft loan components of the bilateral/multilateral aid. However, guarantee shall not normally be given for the commercial loan components of such aid.
- (ix) Government of India guarantee will not be given in cases of grants. However, if the donor insists on ensuring performance, the same may be listed as a negotiating condition for getting the grant.
- (x) Appropriate conditions, may be made by Government while giving the guarantee e.g. period of guarantee, levy of fee to cover risk, representation for Government on the Board of Management, Mortgage or lien on the assets, submission of periodical reports and accounts to Government, right to get the accounts audited on behalf of Government etc. Even if fee, representation and mortgage are not considered necessary, the right to verify the continued credit-worthiness of the borrower should be ensured.
- (xi) The Government may guarantee not more than 80% of the project loan, depending on the conditions imposed by the lender. This would incentivize the lenders to make proper analysis of the project, credit worthiness of the borrower(s), and build strategies for risk management. In such cases, bankers/ lenders may be asked to share the risk by bearing a minimum of 20% of the net loss associated with any default. The arrangement would ensure that the lenders undertake a more rigorous assessment of the risk exposure. Provided further that in certain exceptional circumstances, the Government of India may guarantee 100% of the financing where the organization concerned is discharging some function on behalf of the Government of India.
- (xii) Government may further reduce its exposure by paying for the last rather than the first loss, by setting deductibles that must be satisfied before it

makes payment. Under the 'deductible' arrangement, in case of default of guarantee, Government would pay 80% of the amount in default (amount guaranteed by the Government as per (xi) above) and the balance 20% would be paid by the borrowing institution. The borrowing institution would first have to pay 20% and then approach the Government for settling balance amount. This would require that the borrowing institution identify resources from its own internal resources/assets to meet its obligation.

- (xiii) Guarantee fee is an essential and pre-requisite condition for availing Government of India Guarantee. Therefore, Ministries/Departments must ensure before recommending a proposal of Guarantee to the Budget Division (DEA) that the cost of applicable guarantee fee has been taken into consideration while calculating the total cost of the loan.
- (xiv) No other instruments such as Letter of Comfort/Letter of Assurance/Letter of Undertaking shall be issued by any Ministry/Department/any entity of Government of India.

#### **4. Borrowings from multilateral agencies by Central Public Sector Undertakings:**

- (i) All borrowings from the multilateral agencies by Central Public Sector Undertakings would be direct (without Government of India's intermediation) on terms and conditions as agreed mutually between the borrower and the lender and approved by Government of India. However, where such terms and conditions involve guarantee of Government of India, prior approval of Budget Division, Ministry of Finance shall be obtained.
- (ii) The borrowing should relate to the projects approved by the competent authority of the Central Government.
- (iii) Wherever guarantee is to be given by Government of India, the borrower shall enter into an agreement with the Government of India for payment of guarantee fee on the principal amount of the loan drawn and loan outstanding from time to time.
- (iv) The Government of India Guarantee would cover only the principal amount and normal interest. All other risks including the exchange rate risk would be shared between the borrower and lender as per terms and conditions prescribed in the loan agreement.



## Chapter III

### 1. Guarantee Execution & Monitoring

Ministries/Departments need to ensure the following for guarantee execution and adequate monitoring, once it is approved:

- (i) After examination of the complete proposals received from the administrative Ministry/Department/Credit Division (DEA), Budget Division will obtain approval of the Competent Authority and will convey the approval to Financial Adviser of the respective Ministry/Department/Credit Division (DEA).
- (ii) After the approval of Ministry of Finance is conveyed, the administrative Ministry will enter into agreement with PSU concerned. The agreement will be signed by an appropriate level officer in the Ministry not below the rank of Joint Secretary and correspondingly an officer of equal rank will sign on behalf of the borrower. A sample agreement is enclosed at **Annexure-V** for reference, which is indicative in nature and the actual agreement may be designed by the borrower and lender as per the requirement. A copy of the Guarantee Agreement may be marked to Ministry of Finance (Budget Division), after signing. Ministries/Departments are required to upload the guarantee agreement on the Guarantee portal once it is signed.
- (iii) With regard to Guarantee Agreement in respect of bilateral and multilateral credit, Standard format of Guarantee of the lending institutions may be examined with a view that the same is not in contradiction with the conditions of sovereign guarantee prescribed in this policy and General Financial Rules, 2017. The guarantee agreement may also not omit any conditions as brought out in this Policy. New conditions or covenants, and differences proposed to be inserted in the agreement, if any, shall be referred to Budget Division of the Department of Economic Affairs (DEA) for concurrence.
- (iv) In respect of other loans, Administrative Ministry/Department should ensure that there are no inconsistencies between the guarantee approval given by the Budget Division (DEA), Ministry of Finance and the guarantee agreement signed by them; or between the guarantee approval given by the Budget Division (DEA), Ministry of Finance and the loan agreement signed by the borrower.

- (v) Guarantee proposals approved by the Budget Division shall have to be executed in the same financial year. If the guarantee/ loan agreement is not signed in the same financial year as that of the approval of the guarantee proposal, the guarantee proposal shall have to be submitted again to Budget Division, Ministry of Finance for approval.
- (vi) The guarantee shall hold only for the specific purpose agreed to by the Budget Division.
- (vii) The Financial Advisers in Ministry/ Department will perform the responsibility of maintenance of records and reporting including for the Finance Accounts and the Indian Government Accounting Standard-1 (IGAS-1), through the office of Controller/Chief Controller of Accounts.
- (viii) The obligations of the borrower to service the loan and the guarantee fee, and monitoring utilization of the guaranteed loans and adherence to terms and conditions of the guarantee by the Borrower shall be ensured by the Administrative Ministry/Department through a back-to-back agreement with the borrower which may be drawn up and implemented to the satisfaction of the Administrative Ministry/Department/Credit Division (DEA) concerned. For this purpose, necessary records to monitor the guarantee, including servicing of guarantee fee shall be maintained by the administrative Ministries/Departments/Credit Divisions concerned.
- (ix) Deviations/modifications/amendments on the main conditions of the guarantee, particularly with reference to the rate of interest on the loan to be guaranteed or rate of guarantee fee and other obligations to be covered, should not be referred to Ministry of Finance in a routine manner. The Administrative Ministry concerned shall make out a separate case, fully justifying the need for considering any proposed modifications/amendments, after thorough scrutiny of the request of the borrower for the same, for placing these proposals before Budget Division for a final decision.
- (x) Guarantee agreement incorporating the terms & conditions of the Guarantee, may get vetted by the Ministry of Law & Justice, if needed, by the administrative Ministry/Department/Credit Divisions (DEA) before signing the agreements.
- (xi) Ministries/departments shall ensure periodic monitoring of guarantees given to PSUs where the proposal is risky. Ministries/departments may also evaluate the financial health of such PSUs from time to time to prevent any default in repayment of loans or eventual invocation of guarantees.

## **2. Review of Guarantees**

(i) All Ministries or Departments shall ensure that all guarantees are reviewed every year. The monitoring or review undertaken should examine whether the borrower is discharging repayment obligations or interest obligations as per terms of the loan agreement, whether the repaying capacity for the loan and guarantee amount is imposed in any manner, and whether all covenants and conditions are being religiously followed. The Financial Advisers of the Ministries or Departments should undertake these reviews. A copy of the review report including on timely and correct payment of guarantee fees, shall be forwarded by the Finance Advisor to the Budget Division by 30th April every year for the previous financial year.

(ii) The Financial Advisors of the Ministries or Departments would be responsible for ensuring that the annual reviews are carried out by the Ministries or Departments concerned. They shall also ensure that a register of guarantees in Form GFR 25 is maintained:

- a) to keep a record of guarantees;
- b) to retain information required from time to time in respect of guarantees;
- c) to keep record of the annual reviews to see that these are carried out regularly;
- d) to keep record of levy and recovery of guarantee fee;
- e) to send data as contained in Form GFR 25, duly updated every year to the Budget Division in the Ministry of Finance, Department of Economic Affairs by tenth of April.

(iii) In respect of guarantees issued by the Ministry of Finance for external loans, the respective credit divisions of Department of Economic Affairs shall conduct an annual review in consultation with the Financial Adviser, MoF. For this purpose the Financial Adviser, MoF shall ensure the maintenance of the required registers, as well as ensure that the annual reviews are carried out by the concerned credit divisions, and report forwarded to the Budget Division in Form GFR 25. In cases, where the guarantees on external loans are issued by the concerned administrative Ministry, the Financial Advisor of the concerned administrative Ministry would be responsible for conducting the review.

## **3. Accounting of Guarantees**

In order to ensure greater transparency in its fiscal operations in the public interest, Rule 6 of the FRBM Rules, 2004 requires government to publish a disclosure statement on guarantees given by government, at the time of presenting the annual financial statement and Demands for Grants. This statement covers, inter alia,

details regarding number and amount of guarantees, outstanding amount of guarantee, invocations, additions, deletions during the year, guarantee fee payable and other material details.

(i) The statement is to be compiled by the Line Ministries/Departments and shall be submitted to the office of Controller General of Accounts (CGA) for onward submission to Ministry of Finance (Budget Division). Based upon the inputs from CGA, a statement of Guarantees given by the Central Government is depicted in the Receipt Budget.

(ii) While furnishing the Statement of guarantees to the Ministry of Finance, the Administrative Ministries or Departments should certify that the amounts shown therein tally with the figures shown in the Detailed Demands for Grants.

(iii) While furnishing the summary statements, the Ministries or Departments should also certify that the information tallies with the material furnished to the Controller General of Accounts for the purpose of inclusion in the Finance Accounts of the relevant year and is compliant with IGAS-1 relating to Government Guarantees.

#### **4. Invocation of Guarantee**

(i) In the event of default by the borrower, the lending agency may invoke the guarantee. The Administrative Ministries/ Departments should inform any case of impending/likely invocation, well in advance, to the Budget Division, along with the proposed corrective measures.

(ii) The lending agency shall invoke the guarantee within a time limit not exceeding 60 days of the default. In case, guarantee is not invoked within the stipulated period, the guarantee would cease to exist for that portion of the tranche/loan/liability for which guarantee has not been invoked.

(iii) The Government guarantee shall reduce periodically equivalent to the repayment that have been made by the borrower as per terms and conditions of loan agreement. This will be subjected to condition (ii) above.

(iv) In the event of invocation of a guarantee, the obligation may be discharged by sanctioning loan to the borrowing entity equal to the amount of guarantee outstanding with the approval of Budget Division, Ministry of Finance. However, any payment on this account will finally be charged to the Guarantee Redemption Fund maintained in the Public Accounts.



(v) In case Government guarantee extended to any CPSU stands invoked due to any unforeseen circumstances, administrative Ministry has to obtain Cabinet approval, if the CPSU seeks Government guarantee again.

## Chapter IV

### Guarantee Fee

Government assumes a certain amount of fiscal risk at the stage of guaranteeing quasi-sovereign borrowing. To hedge the risk associated with guarantees, Government has put in a mechanism to charge a risk based premium from the entities, whose loan (and interest thereof) is guaranteed by the sovereign.

2. Rule 279 (1) of General Financial Rules, 2017 authorizes Budget Division, Ministry of Finance to notify the rates of guarantee fee on different types of Government of India guarantees, from time to time. Accordingly, based on risk category, and tenor of the loan, following matrix of guarantee fee are prescribed for external and domestic borrowings respectively:

#### **Guarantee fees based on risk rating and tenor for Domestic as well as External borrowings**

	<b>Less than or equal to 5 years</b>	<b>More than 5 years</b>
<b>Category A</b>	0.5	0.6
<b>Category B</b>	0.7	0.9

3. Guarantee fee is to be paid on the total guaranteed amount from the date of signing of the loan agreement on pro-rata basis for the first year.

4. Similarly, in the subsequent years, guarantee fee will be payable for the outstanding guaranteed amount plus normal interest as on 1<sup>st</sup> April of the financial year. Guarantee fee need to be calculated for the whole year (from 1<sup>st</sup> April till 31<sup>st</sup> March next year) which needs to be paid before 30<sup>th</sup> April. Failure to pay by 30<sup>th</sup> April would entail payment of penal Guarantee Fee for the period of default on pro-rata basis. Guarantee fee once paid cannot be adjusted subsequently against drawal of loan or repayment of loan.

5. In the event of repayment of loan in a particular year, guarantee fee may be paid on pro rata basis till the month of repayment at applicable rates.

6. Ministries or Departments should also take adequate steps to ensure prompt recovery of the prescribed guarantee fee.

7. Where the guarantee fee is not paid on the due date, i.e., by 30<sup>th</sup> of April of the Financial Year, fee should be charged at double the normal rates for the period of default.

8. Ministries/Departments seeking reduction in guarantee fee rates or guarantee fee waiver have to find equivalent savings in their allocated Budget.

9. Following case illustrates the calculation of guarantee fee for a loan which falls under Category A having project duration of 8 years:

S. No	Scenario for the calculation of guarantee fee payable	Due date for payment of guarantee fee in advance	Loan amount (in crores)	Rate of Guarantee Fee	No. of days	Amount of guarantee fee payable (Rs.)
1.	Loan agreement signing on 16 <sup>th</sup> December, 2018 (Amount of guarantee Rs. 600 crore)	16 <sup>th</sup> Dec, 2018	600	0.60%	106 (from 16.12.2018 to 31.03.2019)	1,04,54,795
2.	Principal outstanding plus <b>normal interest</b> as on 1 <sup>st</sup> April, 2019. In subsequent years, Guarantee fee to be paid only on the reduced Principal plus normal interest.	1 <sup>st</sup> April (to be paid by 30 <sup>th</sup> April. 2019 to avoid penal Guarantee fee)	315 (includes ₹ 15 crore as normal interest assuming Rs. 300 crore has been drawn)	0.60%	365 days	1,89,00,000

**Guarantee Redemption Fund:**

A Guarantee Redemption Fund (GRF) has been established in the Public Account of India for redemption of guarantees given to CPSEs, Financial Institutions, etc., by the Central Government whenever such guarantees are invoked. The funding to the Guarantee Redemption Fund is to be done through budgetary appropriations, as considered appropriate, under the head 'Transfer to Guarantee Redemption Fund' through the Demands for Grants of the Department of Economic Affairs.



# Chapter V

## MISCELLANEOUS

**Additional measures to be considered to further streamline the process of assuming risk in the form of Sovereign Guarantee by the administrative Ministries/Departments/Credit Divisions (DEA):**

- (i) The best and often the only time to regulate fiscal risk effectively is before it is taken.
- (ii) In cash based budgeting, since losses are recognized only when payments are made and not when liabilities are incurred, it is considered expedient to specify limits not only for the volume of guarantees to be issued during the year for the budget as a whole but also limits on the volume of guarantees each Ministry/Department is authorized to issue in a year.
- (iii) Individual Ministries/Departments are also expected to closely review the outstanding stock of guarantees issued by them as a proportion of their annual budgetary provisions and examine the need, quantum and scope of the guarantee with the objective of further containing Government exposure.
- (iv) Guarantees may not be proposed for pursuing low priority objectives or programmes. Proposal for grant of guarantee as an off-budget support should also be examined comprehensively by the proposing Ministry/Department/Credit Divisions (DEA) against other alternative forms of support which may be more appropriate and cost-effective. For example, in the case of provision of credit guarantees to enterprises that continually incur losses, while there may be good reasons to support such enterprises if their losses are a result of government's pricing policy, budgetary subsidies or direct government loans may be a more effective and less costly option.
- (v) Approval of Government Guarantee would cast a bigger responsibility on the concerned administrative Ministries/Departments to be more diligent to ensure that there is no invocation of guarantee. In other words, there should be a thorough scrutiny of the loan proposal by both the lending and borrowing agencies. Existence of a government guarantee should not become a substitute for financial prudence.
- (vi) Guarantees may not also be proposed in respect of Public Sector Enterprises whose strong financial credentials and high credit rating would indicate inherent

ability to directly raise the required resources without the support of government guarantee.

(vii) Before guarantee proposal is tendered, the sponsoring Ministry/Department must thoroughly analyze the project and demonstrate that it cannot be financed without government's assistance and that cash flows will be adequate to cover repayment of the debt as well as interest.

(viii) Government may also seek to safeguard its interest and mitigate moral hazard and loss by regulating the actions of the beneficiaries of sovereign guarantees and by monitoring the proper use of guaranteed funds. This has to be done to eliminate any perverse incentive for wilful default.

(ix) Interest rates on guaranteed loans should be benchmarked at the government's cost of funds. Government's liability for meeting interest defaults may be restricted to the benchmark level, i.e., equivalent to G-Securities of comparable maturity with a suitable spread. The Government of India guarantee acts as no-risk investment by the lenders/banks. Therefore, the borrowing entity must negotiate best rates with the lending institutions.

### **Counter Guarantees**

In cases where sovereign guarantee is a pre-requisite for providing loans to State PSUs by foreign lenders for undertaking developmental projects, Central government may extend sovereign guarantee. In such cases, State Governments act as principal guarantor and Government of India acts as counter guarantor. In case of default by the PSU, respective State Government will have the first charge or first liability to repay the loan, and only if the State Government fails to honour the first charge responsibility, Government of India fulfils the obligation as Counter Guarantor. However, guarantees to State PSUs will require Cabinet approval as the same is not within the purview of General Financial Rules, 2017. Guarantee fee applicable on counter guarantee is same as in the case of regular guarantee mentioned in Chapter-IV of this Policy.

### **Lines of Credit (LoC) under IDEAS Scheme**

A Line of Credit is a financing mechanism through which Exim Bank extends support for export of projects, equipment, goods and services from India to various countries. Exim Bank extends LoCs with the support of Government of India to borrowing countries. Government has been providing Line of Credit (LoC) under the **Indian Development and Economic Assistance Scheme (IDEAS)** since 2005-06 with the objective of sharing India's development experience through capacity building,

skills transfer, trade, and infrastructure development by extending concessional Lines of Credit (LOCs) routed through Exim Bank to developing partner countries.

2. Under the Scheme, the recipient/borrowing country shall provide sovereign guarantee to the lending bank (EXIM Bank). These LOCs form an important component of India's diplomatic strategy and have been very useful in generating goodwill and building long term partnerships. Under the Scheme, financial implication is towards payment of Interest Equalization Support (IES) to the lending bank, for which budgetary provision shall be made by the DEA every year. The scheme is operated by IDEAS Section, BC Division. Every year, total guarantee space will be allocated to IDEAS Section for extending guarantees under this scheme as per the estimates. Individual proposal is examined by the IDEAS Section on case-to-basis and decision is taken accordingly.

3. Lines of Credit operate on the concept of counter-guarantee. The borrowing country is principal guarantor and is fully responsible for repayment and servicing of the loan. However, no guarantee fee is being charged by Government of India on LOCs extended under IDEAS Scheme. Presently, Exim Bank is the designated lender bank for the scheme or any other Public Sector Bank/lending agency approved for this purpose by Ministry of Finance. Government of India provides counter-guarantee to Exim Bank for the lines of credit extended to the borrowing countries. If a borrowing country wishes to take a LoC from India to finance the equity of the Government in a Special Purpose Vehicle/Joint Venture for project execution, the same can be considered provided the contractor/partner selected through competitive bidding is an Indian entity. Goods & services for minimum 75% value of the contracts covered under these loans must be sourced from India. LOCs are approved by competent authorities under Ministry of External Affairs initially and subsequently by Ministry of Finance.

## **Conclusion**

The guidelines and procedure prescribed under this Policy are to be followed by all the administrative Ministries/Departments/Credit Divisions (DEA) examining, executing, review and monitoring of government guarantees and by Budget Division (DEA), Ministry of Finance for approval of Government Guarantee. Any deviation from the extant guidelines from the new policy would require the approval of the Finance Minister.

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**The Constitution of India**

**CHAPTER II-BORROWING**

292. The executive power of the Union extends to borrowing upon the security of the Consolidated Fund of India within such limits, if any, as may from time to time be fixed by Parliament by law and to the giving of guarantees within such limits, if any, as may be so fixed.

293. (1) 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.

(2) 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.

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

(4) A consent under clause (3) may be granted subject to such conditions, if any, as the Government of India may think fit to impose.



**Fiscal Responsibility and Budget Management Act, 2003**

4. (1) The Central Government shall-
- (a) take appropriate measures to limit the fiscal deficit upto three per cent of gross domestic product by the 31<sup>st</sup> March, 2021;
  - (b) endeavor to ensure that-
    - (i) the general Government debt does not exceed sixty per cent;
    - (ii) the Central Government debt does not exceed forty per cent; of gross domestic product by the end of financial year 2024-2025;
  - (c) not give additional guarantees with respect to any loan on security of the Consolidated Fund of India in excess of one-half per cent of gross domestic product, in any financial year.
  - (d) endeavor to ensure that the fiscal targets specified in clauses (a) and (b) are not exceeded after stipulated target dates.
- (2) The Central Government shall prescribe the annual targets for reduction of fiscal deficit for the period beginning from the date of commencement of Part XV of Chapter VIII of the Finance Act, 2018 and ending on the 31<sup>st</sup> March,2021:

Provided that exceeding annual fiscal deficit target due to ground or grounds of national security, act of war, national calamity, collapse of agriculture severely affecting farm output and incomes, structural reforms in the economy with unanticipated fiscal implications, decline in real output growth of a quarter by at least three per cent points below its average of the previous four quarters, may be allowed for the purposes of this section.

- 7(3)(a) Except as provided under this Act, no deviation in meeting the obligations cast on the Central Government under this Act, shall be permissible without approval of Parliament.
- (b) Where, owing to unforeseen circumstances, any deviation is made in meeting the obligations cast on the Central Government under this Act, the Minister-in-charge of the Ministry of Finance shall make a statement in both Houses of Parliament explaining
- (i) any deviation in meeting the obligations cast on the Central Government under this Act.
  - (ii) whether such deviation is substantial and relates to the actual or the potential budgetary outcomes and
  - (iii) the remedial measures the Central Government proposes to take.

### **Fiscal Responsibility and Budget Management Rules, 2004**

#### **6. Disclosures-**

- (1) In order to ensure greater transparency in its fiscal operation in the public interest, the Central Government shall, at the time of presenting the annual financial statement and demands for grants, make disclosures of the following:
- (a) any significant change in accounting standards, policies and practices affecting or likely to affect the computation of prescribed fiscal indicators
  - (b) statements of receivables and guarantees in Forms D-1 to D-3 along with explanatory notes, if any
  - (c) a statement of assets in Form D-4 along with explanatory notes, if any
  - (d) a statement of explicit contingent liabilities, which are in the form of stipulated annuity payments over a multi-year time-frame in Form D-5.

## CHAPTER VIII OF INDEMNITY AND GUARANTEE

### "Contract of indemnity" defined.

124. A contract by which one party promises to save the other from loss caused to him by the conduct of the promisor himself, or by the conduct of any other person, is called a "contract of indemnity."

#### *Illustration*

A contracts to indemnify B against the consequences of any proceedings which C may take against B in respect of a certain sum of 200 rupees. This is a contract of indemnity.

### Rights of indemnity-holder when sued.

125. The promisee in a contract of indemnity, acting within the scope of his authority, is entitled to recover from the promisor

- (1) all damages which he may be compelled to pay in any suit in respect of any matter to which the promise to indemnify applies ;
- (2) all costs which he may be compelled to pay in any such suit if, in bringing or defending it, he did not contravene the orders of the promisor, and acted as it would have been prudent for him to act in the absence of any contract of indemnity, or if the promisor authorised him to bring or defend the suit;
- (3) all sums which he may have paid under the terms of any compromise of any such suit, if the compromise was not contrary to the orders of the promisor, and was one which it would have been prudent for the promisee to make in the absence of any contract of indemnity, or if the promisor authorised him to compromise the suit.

### "Contract of guarantee ", "surety", "principal debtor " and "creditor".

126. A "contract of guarantee" is a contract to perform the promise, or discharge the liability, of a third person in case of his default. The person who gives the guarantee is called the "surety"; the person in respect of whose default the guarantee is given is called the "principal debtor", and the person to whom the guarantee is given is called the "creditor". A guarantee may be either oral or written.

### Consideration for guarantee.

127. Anything done, or any promise made, for the benefit of the principal debtor, may be a sufficient consideration to the surety for giving the guarantee.

#### *Illustrations*

- (a) B requests A to sell and deliver to him goods on credit. A agrees to do so, provided C will guarantee the payment of the price of the goods. C promises to guarantee the payment in consideration of A's promise to deliver the goods. This is a sufficient consideration for C's promise.
- (b) A sells and delivers goods to B. C afterwards requests A to forbear to sue B for the debt for a year, and promises that if he does so, C will pay for them in default of payment by B. A agrees to forbear as requested. This is a sufficient consideration for C's promise.
- (c) A sells and delivers goods to B. C afterwards, without consideration, agrees to pay for them in default of B. The agreement is void.

### Surety's liability.

128. The liability of the surety is co-extensive with that of the principal debtor, unless it is otherwise provided by the contract.

### *Illustration*

A guarantees to B the payment of a bill of exchange by C, the acceptor. The bill is dishonoured by C. A is liable not only for the amount of the bill but also for any interest and charges which may have become due on it.

### **Continuing guarantee.**

129. A guarantee which extends to a series of transactions is called a "continuing guarantee".

### *Illustrations*

(a) A, in consideration that B will employ C in collecting the rents of B's zamindari, promises B to be responsible, to the amount of 5,000 rupees, for due collection and payment by C of those rents. This is a continuing guarantee.

(b) A guarantees payment to B, a tea-dealer, to the amount of \$100, for any tea he may from time to time supply to C. B supplies C with tea to above the value of \$ 100, and C pays B for it. Afterwards B supplies C with tea to the value of \$200. C fails to pay. The guarantee given by A was a continuing guarantee, and he is accordingly liable to B to the extent of \$100.

(c) A guarantees payment to B of the price of five sacks of flour to be delivered by B to C and to be paid for in a month. B delivers five sacks to C. C pays for them. Afterwards B delivers four sacks to C, which C does not pay for. The guarantee given by A was not a continuing guarantee, and accordingly he is not liable for the price of the four sacks.

### **Revocation of continuing guarantee.**

130. A continuing guarantee may at any time be revoked by the surety, as to future transactions, by notice to the creditor.

### *Illustrations*

(a) A, in consideration of B's discounting, at A's request, bills of exchange for C, guarantees to B, for twelve months, the due payment of all such bills to the extent of 5,000 rupees. B discounts bills for C to the extent of 2,000 rupees. Afterwards, at the end of three months, A revokes the guarantee. This revocation discharges A from all liability to B for any subsequent discount. But A is liable to B for the 2,000 rupees, on default of C.

(b) A guarantees to B, to the extent of 10,000 rupees, that C shall pay all the bills that B shall draw upon him. B draws upon C. C accepts the bill. A gives notice of revocation. C dishonours the bill at maturity. A is liable upon his guarantee.

### **Revocation of continuing guarantee by surety's death.**

131. The death of the surety operates, in the absence of any contract to the contrary, as a revocation of a continuing guarantee, so far as regards future transactions.

### **Liability of two persons, primarily liable, not affected by arrangement between them that one shall be surety on other 's default.**

132. Where two persons contract with a third person to undertake a certain liability, and also contract with each other that one of them shall be liable only on the default of the other, the third person not being a party to such contract, the liability of each of such two persons to the third person under the first contract is not affected by the existence of the second contract, although such third person may have been aware of its existence.

### *Illustration*

A and B make a joint and several promissory note to C. A makes it, in fact, as surety for B, and C knows this at the time when the note is made. The fact that A, to the knowledge of C, made the note as surety for B, is no answer to a suit by C against A upon the note.

### **Discharge of surety by variance in terms of contract.**

133. Any variance, made without surety's consent, in the terms of the contract between the principal (debtor) and the creditor, discharges the surety as to transactions subsequent to the variance.

#### *Illustrations*

(a) A becomes surety to C for B's conduct as a manager in C's bank. Afterwards, B and C contract, without A's consent, that B's salary shall be raised, and that he shall become liable for one-fourth of the losses on overdrafts. B allows a customer to overdraw, and the bank loses a sum of money. A is discharged from his suretyship by the variance made without his consent, and is not liable to make good this loss.

(b) A guarantees C against the misconduct of B in an office to which B is appointed by C, and of which the duties are defined by an Act of the Legislature. By a subsequent Act, the nature of the office is materially altered. Afterwards, B misconducts himself. A is discharged by the change from future liability under his guarantee, though the misconduct of B is in respect of a duty not affected by the later Act.

(c) C agrees to appoint B as his clerk to sell goods at a yearly salary, upon A's becoming surety to C for B's duly accounting for moneys received by him as such clerk. Afterwards, without A's knowledge or consent, C and B agree that B should be paid by a commission on the goods sold by him and not by a fixed salary. A is not liable for subsequent misconduct of B.

(d) A gives to C a continuing guarantee to the extent of 3,000 rupees for any oil supplied by C to B on credit. Afterwards B becomes embarrassed, and, without the knowledge of A, B and C contract that C shall continue to supply B with oil for ready money, and that the payments shall be applied to the then existing debts between B and C. A is not liable on his guarantee for any goods supplied after this new arrangement.

(e) C contracts to lend B 5,000 rupees on the 1st March. A guarantees repayment. C pays the 5,000 rupees to B on the 1st January. A is discharged from his liability, as the contract has been varied, inasmuch as C might sue B for the money before the 1st March.

### **Discharge of surety by release or discharge of principal debtor.**

134. The surety is discharged by any contract between the creditor and the principal debtor, by which the principal debtor is released, or by any act or omission of the creditor, the legal consequence of which is the discharge of the principal debtor.

#### *Illustrations*

(a) A gives a guarantee to C for goods to be supplied by C to B. C supplies goods to B, and afterwards B becomes embarrassed and contracts with his creditors (including C) to assign to them his property in consideration of their releasing him from their demands. Here B is released from his debt by the contract with C, and A is discharged from his suretyship.

(b) A contracts with B to grow a crop of indigo on A's land and to deliver it to B at a fixed rate, and C guarantees A's performance of this contract. B diverts a stream of water which is necessary for irrigation of A's land and thereby prevents him from raising the indigo. C is no longer liable on his guarantee.

(c) A contracts with B for a fixed price to build a house for B within a stipulated time, B supplying the necessary timber. C guarantees A's performance of the contract. B omits to supply the timber. C is discharged from his suretyship.

### **Discharge of surety when creditor compounds with , gives time to, or agrees not to sue, principal debtor.**

135. A contract between the creditor and the principal debtor, by which the creditor makes a composition with, or promises to give time to, or not to sue, the principal debtor, discharges the surety, unless the surety assents to such contract.

### **Surety not discharged when agreement made with third person to give time to principal debtor.**

136. Where a contract to give time to the principal debtor is made by the creditor with a third person, and not with the principal debtor, the surety is not discharged.

### *Illustration*

C, the holder of an overdue bill of exchange drawn by A as surety for B, and accepted by B, contracts with M to give time to B. A is not discharged.

### **Creditor's forbearance to sue does not discharge surety.**

137. Mere forbearance on the part of the creditor to sue the principal debtor or to enforce any other remedy against him does not, in the absence of any provision in the guarantee to the contrary, discharge the surety.

### *Illustration*

B owes to C a debt guaranteed by A. The debt becomes payable. C does not sue B for a year after the debt has become payable. A is not discharged from his suretyship.

### **Release of one co-surety does not discharge others.**

138. Where there are co-sureties, a release by the creditor of one of them does not discharge the others; neither does it free the surety so released from his responsibility to the other sureties.

### **Discharge of surety by creditor's act or omission impairing surety's eventual remedy.**

139. If the creditor does any act which is inconsistent with the rights of the surety, or omits to do any act which his duty to the surety requires him to do, and the eventual remedy of the surety himself against the principal debtor is thereby impaired, the surety is discharged.

### *Illustrations*

(a) B contracts to build a ship for C for a given sum, to be paid by instalments as the work reaches certain stages. A becomes surety to C for B's due performance of the contract. C, without the knowledge of A, prepays to B the last two instalments. A is discharged by this prepayment.

(b) C lends money to B on the security of a joint and several promissory note made in C's favour by B, and by A as surety for B, together with a bill of sale of B's furniture, which gives power to C to sell the furniture, and apply the proceeds in discharge of the note. Subsequently, C sells the furniture, but, owing to his misconduct and wilful negligence, only a small price is realised. A is discharged from liability on the note.

(c) A puts M as apprentice to B, and gives a guarantee to B for M's fidelity. B promises on his part that he will, at least once a month, see that M make up the cash. B omits to see this done as promised, and M embezzles. A is not liable to B on his guarantee.

### **Rights of surety on payment or performance.**

140. Where a guaranteed debt has become due, or default of the principal debtor to perform a guaranteed duty has taken place, the surety, upon payment or performance of all that he is liable for, is invested with all the rights which the creditor had against the principal debtor.

### **Surety's right to benefit of creditor's securities.**

141. A surety is entitled to the benefit of every security which the creditor has against the principal debtor at the time when the contract of suretyship is entered into, whether the surety knows of the existence of such security or not; and, if the creditor loses, or, without the consent of the surety, parts with such security, the surety is discharged to the extent of the value of the security.

### *Illustrations*

(a) C advances to B, his tenant, 2,000 rupees on the guarantee of A. C has also a further security for the 2,000 rupees by a mortgage of B's furniture. C cancels the mortgage. B becomes insolvent, and C sues A on his guarantee. A is discharged from liability to the amount of the value of the furniture.

(b) C, a creditor, whose advance to B is secured by a decree, receives also a guarantee for that advance from A. C afterwards takes B's goods in execution under the decree, and then, without the knowledge of A, withdraws the execution. A is discharged.



(c) A, as surety for B, makes a bond jointly with B to C, to secure a loan from C to B. Afterwards, C obtains from B a further security for the same debt. Subsequently, C gives up the further security. A is not discharged.

**Guarantee obtained by misrepresentation invalid.**

142. Any guarantee which has been obtained by means of misrepresentation made by the creditor, or with his knowledge and assent, concerning a material part of the transaction, is invalid.

**Guarantee obtained by concealment invalid.**

143. Any guarantee which the creditor has obtained by means of keeping silence as to material circumstances is invalid.

*Illustrations*

(a) A engages B as a clerk to collect money for him, B fails to account for some of his receipts, and A in consequence calls upon him to furnish security for his duly accounting. C gives his guarantee for B's duly accounting. A does not acquaint C with B's previous conduct. B afterwards makes default. The guarantee is invalid.

(b) A guarantees to C payment for iron to be supplied by him to B to the amount of 2,000 tons. B and C have privately agreed that B should pay five rupees per ton beyond the market price, such excess to be applied in liquidation of an old debt. This agreement is concealed from A. A is not liable as a surety.

**Guarantee on contract that creditor shall not act on it until co-surety joins.**

144. Where a person gives a guarantee upon a contract that the creditor shall not act upon it until another person has joined in it as co-surety, the guarantee is not valid if that other person does not join.

**Implied promise to indemnify surety.**

145. In every contract of guarantee there is an implied promise by the principal debtor to indemnify the surety; and the surety is entitled to recover from the principal debtor whatever sum he has rightfully paid under the guarantee, but no sums which he has paid wrongfully.

*Illustrations*

(a) B is indebted to C, and A is surety for the debt. C demands payment from A, and on his refusal sues him for the amount. A defends the suit, having reasonable grounds for doing so, but is compelled to pay the amount of the debt with costs. He can recover from B the amount paid by him for costs, as well as the principal debt.

(b) C lends B a sum of money, and A, at the request of B, accepts a bill of exchange drawn by B upon A to secure the amount. C, the holder of the bill, demands payment of it from A, and, on A's refusal to pay, sues him upon the bill. A, not having reasonable grounds for so doing, defends the suit, and has to pay the amount of the bill and costs. He can recover from B the amount of the bill, but not the sum paid for costs, as there was no real ground for defending the action.

(c) A guarantees to C, to the extent of 2,000 rupees, payment for rice to be supplied by C to B. C supplies to B rice to a less amount than 2,000 rupees, but obtains from A payment of the sum of 2,000 rupees in respect of the rice supplied. A cannot recover from B more than the price of the rice actually supplied.

**Co-sureties liable to contribute equally.**

146. Where two or more persons are co-sureties for the same debt or duty, either jointly or severally, and whether under the same or different contracts, and whether with or without the knowledge of each other, the co-sureties, in the absence of any contract to the contrary, are liable, as between themselves, to pay each an equal share of the whole debt or of that part of it which remains unpaid by the principal debtor.

### *Illustrations*

(a) A, B and C are sureties to D for the sum of 3,000 rupees lent to E. E makes default in payment. A, B and C are liable, as between themselves, to pay 1,000 rupees each.

(b) A, B and C are sureties to D for the sum of 1,000 rupees lent to E, and there is a contract between A, B and C that A is to be responsible to the extent of one-quarter, B to the extent of one-quarter, and C to the extent of one-half. E makes default in payment. As between the sureties, A is liable to pay 250 rupees, B 250 rupees, and C 500 rupees.

### **Liability of co-sureties bound in different sums.**

147. Co-sureties who are bound in different sums are liable to pay equally as far as the limits of their respective obligations permit.

### *Illustrations*

(a) A, B and C, as sureties for D, enter into three several bonds, each in a different penalty, namely, A in the penalty of 10,000 rupees, B in that of 20,000 rupees, C in that of 40,000 rupees, conditioned for D's duly accounting to E. D makes default to the extent of 30,000 rupees. A, B and C are each liable to pay 10,000 rupees.

(b) A, B and C, as sureties for D, enter into three several bonds, each in a different penalty, namely, A in the penalty of 10,000 rupees, B in that of 20,000 rupees, C in that of 40,000 rupees, conditioned for D's duly accounting to E. D makes default to the extent of 40,000 rupees; A is liable to pay 10,000 rupees, and B and C 15,000 rupees each.

(c) A, B and C, as sureties for D, enter into three several bonds, each in a different penalty, namely, A in the penalty of 10,000 rupees, B in that of 20,000 rupees, C in that of 40,000 rupees, conditioned for D's duly accounting to E. D makes default to the extent of 70,000 rupees. A, B and C have to pay each the full penalty of his bond.



## GOVERNMENT GUARANTEES

**Rule 275 (1) Power to Give and Limits on Government Guarantees.** The power of the Union Government to give guarantees emanates from and is subject to such limits as may be fixed in terms of Article 292 of the Constitution of India, the Fiscal Responsibility and Budget Management Act and Rules framed there under as amended from time to time.

**Rule 275 (2)** In terms of the Fiscal Responsibility and Budget Management Act and Rules framed thereunder, the Central Government shall not give guarantees aggregating the amount prescribed therein.

**Rule 275 (3)** Powers to grant Government of India Guarantee, including those on external borrowings, vests with the Budget Division, Department of Economic Affairs (DEA).

**Rule 276 Objectives of Government Guarantees:** The sovereign guarantee is normally extended for the purpose of achieving the following objectives:

- (i) To improve viability of projects or activities undertaken by central entities with significant social and economic benefits;
- (ii) To enable central public sector companies to raise resources at lower interest charges or on more favourable terms;
- (iii) To fulfil the requirement in cases where sovereign guarantee is a precondition for concessional loans from bilateral/ multilateral agencies to central public sector companies/agencies.

**Rule 277 Guidelines for grant of Government of India Guarantee:** The following guidelines should be followed by the Ministries or Departments of the Government of India for recommending guarantee or counter guarantee.—

- (i) A proposal for guarantee by Government must be justified in public interest such as in the case of borrowings by central public sector institutions for approved development purposes or borrowings by central public sector undertakings from Banks for working capital and other purposes.
- (ii) The Administrative Ministry/ Department or the credit Divisions of Department of Economic Affairs shall

examine the proposal in consultation with the Financial Adviser in the same manner as a proposal for loan. While examining the proposal the following considerations shall be kept in view :-

- (a) Public interest which the guarantee is expected to serve.
- (b) Credit worthiness of the borrower to ensure that no undue risk is involved.
- (c) Terms of the borrowing shall take into account the yields as applicable on Government paper of similar maturity.
- (d) The conditions prescribed in the guarantee order/agreement in order to ensure continued credit worthiness of the borrower.

(iii) Risk associated with assumption of a new contingent liability/guarantee proposal, including the probability of future payouts should be thoroughly assessed by the concerned Administrative Ministry/Department or Credit Divisions of Department of Economic Affairs recommending the proposal. Such assessment should ideally be entrusted to an independent unit and should be undertaken even when it has already been decided by a higher authority to provide guarantees. The assessment should reveal an accurate picture of the financial condition of the entity to be guaranteed; risks associated with implementation of the project/ scheme, etc. This information would be useful to estimate the funds needed to meet associated contingent liabilities if the need should arise, in current or future budgets.

(iv) After examination in the concerned Ministry or Department or Credit Division of DEA, all proposals for extending guarantees shall be referred to Budget Division, DEA for approval. No guarantees shall be given without the approval of Budget Division, DEA

(v) With a view to enable the Ministry of Finance to examine cases of Government of India guarantees and extension thereto, all Ministries or Departments should furnish to that Ministry, data of certain operational



parameters of the Public Sector Undertaking or Entity, as given in GFR 26. In case the accounts of the Central Public Sector Undertaking or Entity have been audited by the Comptroller & Auditor General of India, the effect of the comments of the Comptroller & Auditor General of India on the Central Public Sector Undertaking's profitability should be brought out. Further, where BIFR targets have been assigned or Cabinet directions issued to the Company, the actuals vis-à-vis targets for the preceding three years should be indicated. The data should be furnished in the Form GFR 26 along with the proposal for guarantee.

- (vi) Guarantees shall normally be restricted to the repayment of principal and normal interest component of the loan. Other risks shall not form part of the guarantee.
- (vii) Government guarantees will be extended to only central public sector companies/agencies.
- (viii) Government guarantees shall not be provided to the private sector.
- (ix) Government guarantees should normally not be extended for external commercial borrowings.
- (x) Government guarantees may be given on all soft loan components of the bilateral/multilateral aid. However, guarantee shall not be normally given for the commercial loan components of such aid.
- (xi) Government of India guarantee will not be given in cases of grants. However, if the donor insists on ensuring performance, the same may be listed as a negotiating condition for getting the grant.
- (xii) Appropriate conditions, may be made by Government while giving the guarantee e.g. period of guarantee, levy of fee to cover risk, representation for Government on the Board of Management, Mortgage or lien on the assets, submission to Government of periodical reports and accounts, right to get the accounts audited on behalf of Government etc. Even if fee, representation and mortgage are not

considered necessary, the right to verify the continued credit-worthiness of the borrower should be ensured.

- (xiii) Guarantees may not be proposed for pursuing low priority objectives or programmes. Proposal for grant of guarantee as an off-budget support should also be examined comprehensively by the proposing Ministry/Department against other alternative forms of support which may be more appropriate and cost-effective. For example, in the case of provision of credit guarantees to enterprises that continually incur losses as a result of government's pricing policy, budgetary subsidies or direct government loans may be a more effective and less costly option.
- (xiv) Guarantees may not be proposed in respect of Central Public Sector Enterprises whose strong financial credentials and high credit rating would indicate inherent ability to directly raise the required resources without the support of government guarantee.

**Rule 278 Borrowings from multilateral agencies by Central Public Sector Undertakings.**

- (i) All borrowings from the multilateral agencies by Central Public Sector Undertakings would be direct (without Government of India's intermediation) on the terms as agreed mutually between the borrower and the lender and approved by the Government of India. However, where such terms involve guarantee of Government of India, prior approval of the Budget Division of the Ministry of Finance may be obtained.
- (ii) The borrowing should relate to the Projects approved by the prescribed competent authority of the Central Government.
- (iii) Wherever guarantee is to be given by Government of India, the borrower shall enter into an agreement with the Government of India for the payment of guarantee fee on the principal amount of the loan drawn and loan outstanding from time to time.
- (iv) The Government of India Guarantee would only cover the principal amount



and the normal interest. All other risks including the exchange rate risk would be shared between the borrower and lender as per terms and conditions prescribed in the loan agreement.

**Rule 279 (1) Levy of Guarantee Fees.** The rates of fee on guarantees would be as notified by the Budget Division, Department of Economic Affairs, Ministry of Finance from time to time. The rates of guarantee fee are given in Appendix - 12. Ministries or Departments shall levy the prescribed fee in respect of all cases. The fees are also to be levied in respect of non-fund based borrowings or credits (viz. letters of credit, Bank guarantees etc.). In case of any doubt with regard to the categorisation of any particular undertaking or organization or the nature of borrowing for the purpose of levy of fee, the matter may be referred to the Budget Division for clarification. The Ministries or Departments should also take adequate steps to ensure prompt recovery of the prescribed fees.

**Rule 279 (2)** The guarantee fee should be levied before the guarantee is given and thereafter on first April every year. The rate of guarantee fee is to be applied on the amount outstanding at the beginning of the guarantee year.

**Rule 279 (3)** Where the guarantee fee is not paid on the due date, fee should be charged at double the normal rates for the period of default.

**Rule 279 (4)** The Government may guarantee no more than 80% of the project loan, depending on the conditions imposed by the lender. This would incentivize the lenders to make proper analysis of the project, credit worthiness of the borrower(s), and build strategies for risk management. In such cases, bankers/ lenders may be asked to share the risk by bearing a minimum of 20% of the net loss associated with any default. The arrangement would ensure that the lenders undertake a more rigorous assessment of the risk exposure.

Provided further that in certain exceptional circumstances, the Government of India may guarantee 100% of the financing where the organisation concerned is discharging some function on behalf of the Government of India.

## **Rule 280 Execution of Government Guarantees.**

- (i) Once the guarantee is approved by Ministry of Finance, the guarantees will be executed and monitored by the Administrative Ministries concerned, who are also required to report the status in this regard on an annual basis till they are invoked or are obliterated. The following guidelines need to be kept in view while issuing guarantees-
  - a) The obligations of the borrower to service the loan and the guarantee, and the monitoring of the utilization of the guaranteed loans, and adherence to the terms and conditions of the guarantee by the Borrower shall be ensured by the Administrative Ministry/ Department through a back-to-back agreement with the borrower which may be drawn up and implemented to the satisfaction of the Administrative Ministry concerned. For this purpose, necessary records to monitor the guarantee, including servicing of guarantee fee shall be maintained by the Line Ministries/ Departments concerned.
  - b) Administrative Ministry should ensure that there are no inconsistencies between the guarantee approval given by the Ministry of Finance and the guarantee agreement signed by it with the borrower. The obligations enforced by the Government as guarantor would be duly factored in.
  - c) Deviations/modifications/ amendments on the main conditions of the guarantee, particularly with reference to the rate of interest on the loan to be guaranteed and obligations of the Government to be covered, should not be referred in a routine manner to Budget Division for clarification/ change. The Administrative Ministry concerned shall make out a separate case, fully justifying the need for considering any proposed modifications/ amendments, after thorough





scrutiny of the request of the borrower for the same, before placing these proposals before the Budget Division for a final decision.

- d) In respect of bilateral and multilateral credit, Standard format of Guarantee of the lending institutions may be examined with a view that the same are not in contradiction with the conditions of sovereign guarantee prescribed in this chapter, before signing by the Administrative Ministry/ Department. The guarantee agreement may also not omit any conditions as brought out in this Chapter. New conditions or covenants, and differences, if any, shall be referred to Budget Division of the Department of Economic Affairs (DEA) for concurrence.
- e) Guarantee proposals approved by the Budget Division shall have to be executed in the same financial year. If the guarantee/ loan agreement is not signed in the same financial year as that of the approval of the guarantee proposal, the guarantee proposal shall have to be submitted again.
- f) The guarantee shall hold only for the specific purpose agreed to by the Budget Division.
- g) Guarantee given by Government of India shall be non-transferrable and would cease to exist in case the ownership of the entity is transferred from Government of India, unless the Guarantee is re-confirmed by the Budget Division.
- (ii) The Financial Advisers in Ministry/ Department will perform the responsibility of maintenance of records and reporting including for the Finance Accounts and the IGAS, through the office of Controller/Chief Controller of Accounts.

**Rule 281 (1) Review of Guarantees.** All Ministries or Departments shall ensure that all guarantees are reviewed every year. The

monitoring or review undertaken should examine whether the borrower is discharging repayment obligations or interest obligations as per terms of the loan agreement, whether the repaying capacity for the loan and guarantee amount is imposed in any manner, and whether all covenants and conditions are being religiously followed. The Financial Advisers of the Ministries or Departments should undertake these reviews. A copy of the review report including on timely and correct payment of guarantee fees, shall be forwarded by the Finance Advisor to the Budget Division by 30th April every year for the previous financial year.

**Rule 281 (2)** The Financial Adviser of the Ministries or Departments would be responsible for ensuring that the annual reviews are carried out by the Ministries or Departments concerned. They shall also ensure that a register of guarantees in Form GFR 25 is maintained :-

- (i) to keep a record of guarantees;
- (ii) to retain information required from time to time in respect of guarantees;
- (iii) to keep record of the annual reviews to see that these are carried out regularly;
- (iv) to keep record of levy and recovery of guarantee fee;
- (v) to send data as contained in Form GFR 25, duly updated every year to the Budget Division in the Ministry of Finance, Department of Economic Affairs by tenth of April.

**Rule 281 (3)** In respect of guarantees issued by the Ministry of Finance for external loans, the respective credit divisions of Department of Economic Affairs shall conduct an annual review in consultation with the Financial Adviser (DEA). For this purpose the Financial Adviser (DEA) shall ensure the maintenance of the required registers, as well as ensure that the annual reviews are carried out by the concerned credit divisions, and report forwarded to the Budget Division in Form GFR 25. In cases, where the guarantees on external loans are issued by the concerned administrative Ministry, that Ministry would be responsible for conducting the review.

**Rule 281 (4) Classification of guarantees.** For the purpose of record keeping, guarantees shall be classified as under:-





- (i) guarantees given to the RBI, other banks and industrial and financial institutions for repayment of principal and payment of interest, cash credit facility, financing seasonal agricultural operations and/or providing working capital to companies, corporations, cooperative societies and banks;
- (ii) guarantees given for repayment of share capital, payment of minimum annual dividend and repayment of bonds or loans, debentures issued or raised by the statutory corporations and central public sector undertakings;
- (iii) guarantees given in pursuance of agreements entered into by the Government of India with international financial institutions, foreign lending agencies, foreign governments, contractors, suppliers, consultants etc., towards repayment of principal, interest and/ or commitment charges on loans etc., and /or for payment against supplies of material and equipment;
- (iv) counter guarantees to banks in consideration of the banks having issued letters of credit or authority to foreign suppliers for supplies made or services rendered.
- (v) guarantees given to Railways for due and punctual payment of dues by Central Government companies or corporation;
- (vi) Others guarantees not covered under above five classes.

**Rule 282 Accounting for Guarantees.** In order to ensure greater transparency in its fiscal operations in the public interest, Rule 6 of the FRBM Rules, 2004 requires government to publish a disclosure statement on guarantees given by government, at the time of presenting the annual financial statement and demands for grants. This statement covers, inter alia, details regarding the class and number of guarantees, amounts guaranteed, outstanding, invocations, guarantee fee payable and other material details.

- (i) The statement is to be compiled by the Administrative Ministries/ Departments and submitted to Controller General of Accounts, for

onward submission to Budget Division. Based upon the inputs, a statement of Guarantees given by the Central Government is depicted as an annexure in the Receipt Budget.

- (ii) While furnishing the Statement of guarantees to the Ministry of Finance, the Administrative Ministries or Departments should ensure and certify that the amounts shown tally with the total figures in the statement to be included in the Detailed Demands for grants.
- (iii) While furnishing the summary statements, the Ministries or Departments should also certify that the information tallies with the material furnished to the Controller General of Accounts for the purpose of inclusion in the Finance Accounts of the relevant year and is compliant with Indian Government Accounting Standard- 1 (IGAS-1) relating to Government Guarantees.

**Rule 283 (1) Invocation of Guarantee.** A Guarantee Redemption Fund (GRF) has been established in the Public Account of India for redemption of guarantees given to CPSEs, Financial Institutions, etc., by the Central Government whenever such guarantees are invoked. The funding to the Guarantee Redemption Fund is to be done through budgetary appropriations, as considered appropriate, under the head 'Transfer to Guarantee Redemption Fund' through the Demands for Grants of the Department of Economic Affairs.

**Rule 283 (2)** The Administrative Ministries/ Departments should inform any case of impending/likely invocation, well in advance, to the Budget Division, along with the proposed corrective measures.

**Rule 283 (3)** In the event of invocation of a guarantee, the obligation may be discharged by sanctioning loan to the borrowing entity equal to the amount of guarantee outstanding with the approval of Budget Division, Ministry of Finance. However, any payment on this account will finally be charged to the Guarantee Redemption Fund maintained in the Public Accounts.

**GUARANTEE AGREEMENT**

between the

**GOVERNMENT OF INDIA**

and the

**Borrower**

Dated \_\_\_\_\_

**THIS AGREEMENT IS MADE AT NEW DELHI ON THIS ..... DAY OF ..... BY AND AMONG**

**Borrower/CPSU/PSBs, having its registered office/Head office/Corporate Centre at \_\_\_\_\_** (hereinafter referred to as, "Borrower/CPSU/PSBs as stated earlier, which expression shall, unless repugnant to the context or meaning thereof shall include its successors and assigns) of the First Part.

**AND**

GOVERNMENT OF INDIA represented by and acting through Joint Secretary, Ministry/Department **Government of India** hereinafter called as "**Guarantor**" (hereinafter referred to as Ministry/Department which expression shall, unless repugnant to the context or meaning thereof be deemed to include his successors in office and assigns) of the **Second Part**.

\_\_\_\_\_ and \_\_\_\_\_ shall individually be referred to as "**Party**" and collectively as "**Parties**"

NOW THEREFORE, THE DEED OF GUARANTEE WITNESSETH AS FOLLOWS:

**IN CONSIDERATION OF WHAT IS STATED HEREINABOVE**

The Guarantor hereby guarantees to the \_\_\_\_\_ the due repayment of the loan/bonds herein and interest thereon payable annually/semi-annually at an interest rate/fixed coupon rate of \_\_\_\_\_.

## **ARTICLE I**

### **1.1 General Provisions**

**Guarantee Fee:** It is agreed that borrower/CPSU/PSB will pay guarantee fee at the rate of \_\_\_% to the Govt. of India. The rate of guarantee fee is to be applied on the amount outstanding at the beginning of the guarantee year. If the guarantee fee is not paid on the due date, fee should be charged at double the normal rates for the period of default.

### **1.2 Other terms & Conditions**

It is agreed between the parties that:

- (i) Government guarantee would only cover principal amount and normal interest upto the Government Guarantee Limit. “Government Guarantee” shall not secure any liquidated damages/penal interest/additional interest/other charges or fees.
- (ii) The guarantee shall not be transferable to any agency without the prior approval of Budget Division, Department of Economic Affairs (DEA), Ministry of Finance. Borrower/CPSUs/PSB should provide copies of the back to back agreement to be signed with the lender to the Administrative Ministry concerned.
- (iii) The Administrative Ministry shall review proper utilization of the guarantee by the borrower and ensure that no default is made by the borrower/CPSU/PSB in the payment of interest/premium or coupon, principal sum, and such other amount as may be due and payable by them to the lender. The lender shall be at liberty to adjust or

appropriate at its sole discretion any monies received from the borrower by way of interest or principal or other dues or any claim amount received or otherwise towards reduction of the debt guaranteed by these presents or appropriate done by the borrower. Any imminent default shall immediately be reported to Ministry of Finance (Budget Division), Govt. of India.

- (iv) The Administrative Ministry shall ensure that there is no inconsistency in the implementation of this guarantee. It shall monitor the utilization of the guaranteed Bonds, and adherence to the terms and conditions of the guarantee by the Bond issuer. For this purpose, necessary records to monitor the guarantee such as register of guarantees etc. as described in Chapter 11 of the General Financial Rule (GFR), 2017 shall be maintained by the Ministry concerned.
- (v) The Administrative Ministry shall ensure that the Govt. Guarantee is reviewed every year. The review should examine whether the borrower is discharging repayment obligations or interest obligations as per terms of the Agreement. A copy of the review report approved by Financial Adviser, Nodal Ministry shall be forwarded to Budget Division, Ministry of Finance by 30<sup>th</sup> April every year for the previous financial year.
- (vi) In case of default made by the borrower, the lender shall invoke the Guarantee within a time limit not exceeding 60 days of the default. In case the guarantee is not invoked within the stipulated period, the guarantee would cease to exist for that portion of the tranche/loan/liability for which guarantee has not been invoked.

- (vii) The guarantee shall reduce periodically equivalent to the repayment that have been made by the borrower as per terms and conditions of Agreement. This will be subject to condition (vi) above.

## **ARTICLE II**

### **UNDERTAKING OF THE BORROWER**

Borrower/CPSUs/PSB hereby undertakes, confirms, assures, acknowledges that (a) the terms and conditions of the Guarantee shall (to the extent possible) remain unchanged and any revision/amendment/addition in terms and conditions shall require prior approval of the Budget Division of the Department of Economic Affairs, Ministry of Finance, Govt. of India; (b) it shall maintain necessary records and provide necessary documents for the purpose of monitoring repayment/payment obligations and adherence to the terms and conditions of this agreement; (c) it acknowledges the right of the Administrative Ministry to inter alia monitor the end use of the Govt. of India guarantee on the above terms and conditions; (d) it shall assist the Administrative Ministry in discharging its duties in respect of the Govt. of India guarantee in accordance with the applicable law; and (e) it shall disclose all the terms and conditions contained in this agreement to the borrower to avoid any ambiguity.



## ARTICLE III

### MISCELLANEOUS

#### 3.1 Amendment and Waivers Procedure

This Agreement may be amended, supplemented or modified only with the written consent of both the Parties.

#### 3.2 Governing Law

The Guarantee Agreement shall be subject to the laws of India and will be subject to the jurisdiction of the Courts at Delhi, if the circumstances so required.

#### 3.3. Date of Effect

The Guarantor hereby agrees and confirms that the guarantee herein will come into effect and be operative on and from the date of approval of guarantee conveyed by Budget Division, Ministry of Finance.

**Signed for and on behalf of  
Borrower/CPSU/PSB**

**Signed for and on behalf of  
Administrative Ministry/Department  
Government of India**

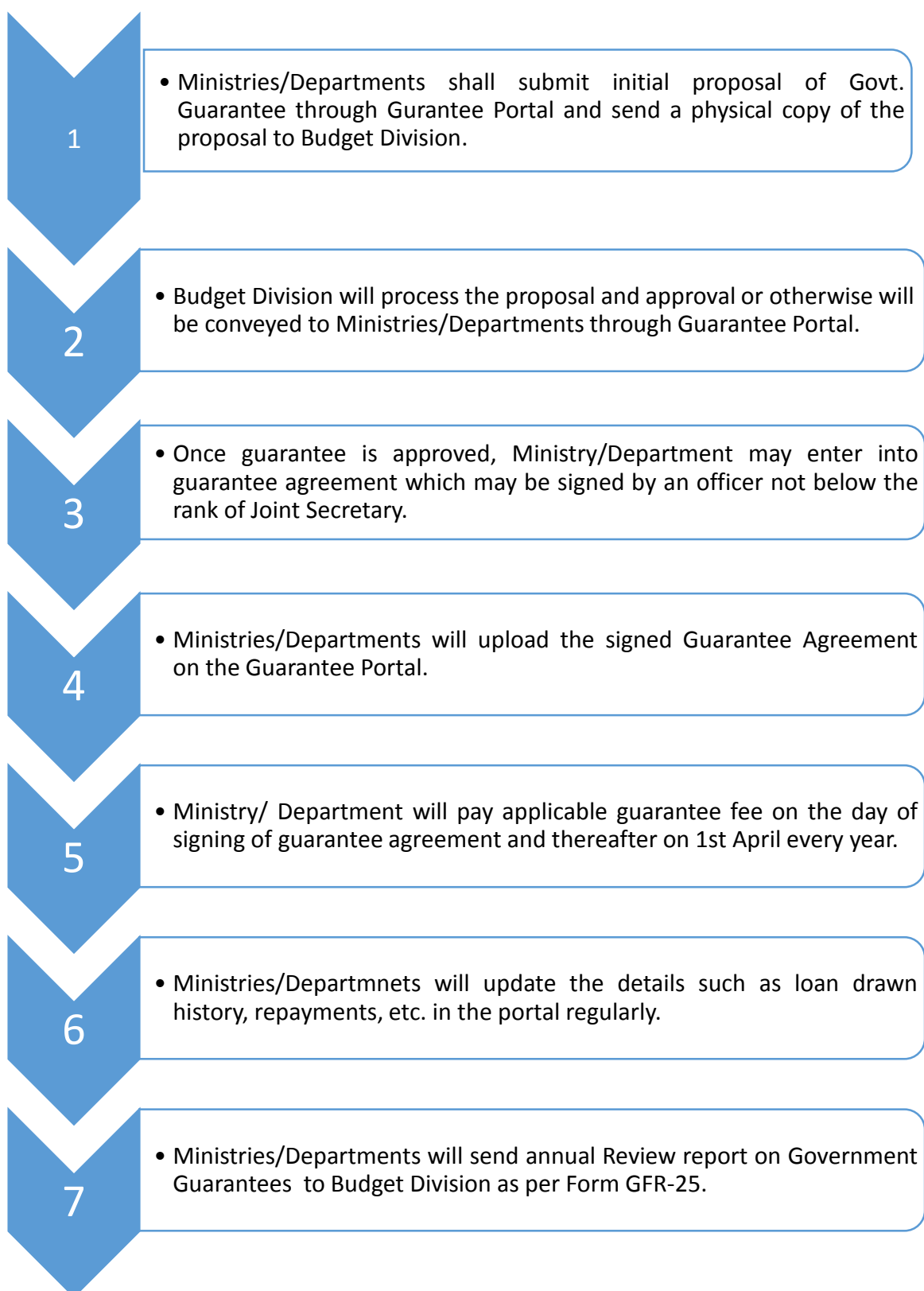
(\_\_\_\_\_)

Designation  
Name of Borrower/CPSU/PSB  
Authorized Signatory

(\_\_\_\_\_)

Designation  
Administrative Ministry/Deptt.  
Authorized Signatory

## Process flow of Guarantee Proposals



### Suggested Framework for Risk assessment of Guarantee proposals

Ministries/Departments are required to undertake risk assessment of the proposals received from CPSUs before sending them to Ministry of Finance. Following ratios may be calculated for assessing the risk:

- i) **Debt Service Coverage Ratio:** It indicates the ability of a company to use its operating income to repay all its debt obligations, including repayment of principal and interest on both short-term and long-term debt.

$$\frac{\text{Earnings before Interest, Tax, Depreciation \& Amortization (EBITDA)}}{\text{Interest + Principal}}$$

Category A	Category B
More than or equal to 1.25	Less than 1.25

- ii) **Current Ratio (CR):** It depicts the ability to meet short-term liabilities from selling short-term assets, and calculated as under:

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

Category A	Category B
More than or equal to 1.5	Less than 1.5

- iii) **Debt to Equity Ratio (D/E):** It depicts the ability to pay off debt in future and calculated as under:

$$\frac{\text{Total liabilities}}{\text{Shareholders' equity}}$$

Category A	Category B
Less than or equal to 1	More than 1

Overall Risk Rating	Less than or equal to 1.5	More than 1.5
	Category A	Category B

Example: The above framework has been illustrated as under:

	DSCR*	D/E*	CR*	Calculation= Average of (Ratings Assigned)	Overall risk rating
Company 1	1.75	0.25	2.10	= 1 (1+1+1)/3)	Category A
Company 2	1.20	1.20	1.50	= 1.67(2+2+1)/3)	Category B
Company 3	0.90	1.80	0.80	= 2 (2+2+2)/3)	Category B

Note: Overall Risk Rating shall be calculated by taking simple mean of all the ratios by assigning 1 and 2 values to 'A or 'B' category.

\*Three years' average ratio may be considered for calculating the overall risk rating.

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