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GOVERNMENT OF ORISSA

FINANCE DEPARTMENT

RESOLUTION

The 19th March 2004

SUBJECT–Criteria and guidelines to be followed for Government Guarantees for loans by Public Sector Undertakings/Urban Local Bodies/Co-operative Institutions/Companies, etc.–Opening of Escrow Account and amendment of Guarantee rules thereon.

The State Government in Finance Department have prescribed the criteria and guidelines to be followed for Government guarantees for loans by Public Sector Undertakings/Urban Local Bodies/Co-operative Institutions/Companies, etc. in Resolution No. 52214-F., dated the 12th November 2002. It has been observed that the Public Sector Undertakings/Urban Local Bodies/Co-operative Institutions/Companies, etc. which have availed loans guaranteed by the State Government are treating the servicing liabilities of such loans as a last charge on their revenues after meeting all other expenses. This has resulted in accumulation of liabilities and in many occasions because of non-servicing of such loans, the financial institutions are invoking the Government guarantee.

Due to default in servicing of loans guaranteed by Government of Orissa, Banks/ Financial Institutions who are the major investors in the State's market borrowings are showing reluctance to invest in Government Bonds. On account of this, the Reserve Bank of India on several occasions have been unable to raise the full amount under the approved market borrowing programme of the Government. Instances have also come to notice wherein the Banks/Financial Institutions are taking shelter of the Debt Recovery Tribunal for recovery of their dues and the State Government (being the guarantor) are receiving show cause notices for attachment of Government Account with the Reserve Bank of India for recorvery of such dues.

In view of this development, Government after careful consideration have decided that all Public Sector Undertakings/Urban Local Bodies/Co-operative Institutions and Companies which have borrowed against Government guarantee will open an Escrow Account in a Nationalised Bank to which all their receipts, collections, income, etc., would be deposited. The said Bank Account would be pledged in favour of the financial institutions from which the PSUs, etc., has borrowed or intend to borrow funds under Government guarantee. The proceeds of this account would first be utilised for servicing of Government guaranteed loan to the financial institutions. Only after meeting such payments can the surplus amount be withdrawn for meeting other expenses. Such a mechanism would ensure timely payment of dues which are guaranteed by the State Government. The position regarding opening of an Escrow Account should be reviewed in every Board meeting of the borrowing organisation. Government Directors on the Board of such undertakings should ensure that this information is placed before the Board in every meeting and that the undertaking has taken steps for payment of dues which are guaranteed by the State Government.

No Government guarantee shall be given unless the borrowing organisation has opened an Escrow Account for loans availed from the Banks/Financial Institutions under the State Government guarantee coverage.

While considering sanction of any new guarantee, the Administrative Department shall provide for opening of an Escrow Account in the guarantee sanction order in the prescribed format in Annexure-II as well as in the Agreement format in Annexure-III appended to the guarantee guidelines. They should obtain concurrence of Finance Department before sanction of guarantee and execution of Agreement as required under Rules 8 and 9 of the Guarantee Rule.

ORDER–Ordered that this Resolution be published in the next issue of the extraordinary Gazette.

By order of the Governor

Dr. U. SARAT CHANDRAN

Principal Secretary to Government

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