

Nirman Bhawan, New Delhi
Dated: 11th April 2017

OFFICE MEMORANDUM

Subject:- Financing for Smart Cities- Debt Financing Options from
Multilateral Agencies.

Please refer to this Ministry's OM dated 26th July 2016 (Copy enclosed) and subsequent DO letters dated 29th July 2016, 26th September 2016 and 30th March 2017 from Secretary (UD) conveying different windows of external financing available and the steps required to avail external financing through Ministry of Finance including procedures for submitting proposals.

2. Following documents/copies of guidelines in the subject matter to facilitate cities to prepare their proposals and submit to DEA for availing external financing are enclosed for further necessary action:-

- a) Procedures for submission of proposals for MDB assistance
- b) Guidelines of examining proposals of States availing structural Adjustment Loans & other external loans for clearance from debt sustainability angle (MoF OM No. 3 (37)/FRU/2015 dated 22nd July 2015).
- c) Circular No. 04/01/2011-FB-II dated 1st December 2011 for Minimum counterpart funding for World Bank and ADB assisted projects.
- d) A comparative table of interest rate charged by various MDBs (The list is indicative in nature and subject to change).
- e) Format for submitting preliminary project proposals.

Encl:- As above.



(Sanjay Sharma)

Under Secretary to the Govt. of India
Tel:- 23062908

All Principal Secretaries (UD/MA)/State Mission Directors

Procedure for submission of proposals for MDB assistance

[A] Proposals from State Government (State Sector project proposals):

- i) All project proposals will be submitted to the DEA, through the Central line Ministry, with their concurrence/ comments. For North-Eastern States, the project proposals are required to be submitted through M/o DONER, who in turn will consult the Central line Ministry, and MEA, MHA etc if required.
- ii) Debt sustainability certificate from the Finance Department of the State Government concerned, as per Deptt. of Expenditure OM No.3(37)/FRU/2015 dated 22.7.2015 (copy enclosed), may be provided.
- iii) The minimum counterpart funding is 30% of the project size, in respect of State Sector project proposals, as per DEA's Circular No.4/1/2011-FB.II dated 1.12.2011 (copy enclosed).
- iv) Maximum external funding is capped at US\$ 500 million at present.
- v) All project proposals are to be accompanied by a SWOT analysis for perusal of the Screening Committee in the DEA.

[B] Proposals from Central Government (Central Sector project proposals):

- i) All project proposals will be submitted to the DEA by the sponsoring Ministry/ Department through the NITI Aayog, with their concurrence. Relevant central Ministries other than the sponsoring Ministry are also consulted, if required.
- ii) The minimum counterpart funding is 50% of the project size, in respect of Central Sector project proposals, as per DEA's Circular No.4/1/2011-FB.II dated 1.12.2011 (copy enclosed).
- iii) All project proposals are to be accompanied by a SWOT analysis for perusal of the Screening Committee in the DEA.

[C] Proposals from Central PSUs:

- i) All project proposals will be submitted to the DEA, through the administrative Central Ministry and the NITI Aayog, with their concurrence.

- ii) The minimum counterpart funding is 50% of the project size as per DEA's Circular No.4/1/2011-FB.II dated 1.12.2011 (copy enclosed).
- iii) All project proposals are to be accompanied by a SWOT analysis for perusal of the Screening Committee.
- iv) It may be noted that Rule 247 of GFR, 2005, as amended from time to time stipulate as under:
 - “ (a) 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 grant of Government of India Guarantee, prior approval of the Budget Division of the Ministry of Finance may be obtained.
 - (b) The borrowing should relate to approved Projects.
 - (c) 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.
 - (d) The borrower shall bear the exchange risk and get the funds directly on terms and conditions prescribed by the lending agency.”

A policy paper on Government Guarantees titled "Government Guarantee policy" issued by the Budget Division, DEA on 22.9.2010 is available on the website of Ministry of Finance (URL: http://finmin.nic.in/the_ministry/dept_eco_affairs/budget/govern_guarantee_policy.pdf) for ready reference.

- v) The above provisions are to be followed in case of multilateral funding requested by Central PSUs.

F.No. 3 (37)/FRU/2015
Government of India
Ministry of Finance
Department of Expenditure
Finance Commission Division

Block No.11, 5th Floor,
C.G.O. Complex, Lodhi Road,
New Delhi – 110 003.
Dated, the 22nd July, 2015.

Office Memorandum

Sub: Guidelines for examining proposals of States availing Structural Adjustment Loan & other external loan for clearance from debt sustainability angle.

Attention is drawn to the O.M. No. 4(5)/FRU/2004 dated October 24, 2005 on the subject mentioned above.

2. Department of Expenditure has been examining proposals of state governments for availing structural adjustment loans and external loan assistance for projects, taking into account States' Fiscal Correction path. Consequent upon acceptance of the recommendations of the Fourteenth Finance Commission (FC-XIV), it has become necessary to revisit the above guidelines for assessment of debt sustainability of States for availing structural adjustment loans and external loan assistance for projects.

3. Annual net borrowing limits to States is determined by Department of Expenditure, Ministry of Finance, based on the recommendations of Finance Commissions which limits the net borrowings to fiscal deficit norms prescribed for each State and in line with Fiscal Responsibility and Budget Management Acts in place in all the States. The States are required to remain within the borrowing ceiling fixed by the Ministry of Finance each year and also the fiscal deficit limits & debt to GSDP norms prescribed by Finance Commissions as incorporated in the FRBMA of States.

4. In view of the above and to further streamline the process of accessing external loans, it has now been decided that there may not be any need to examine the proposals of State governments for external loan assistance from the debt sustainability angle. However, loans under EAPs would be considered by Department of Economic Affairs (DEA) subject to States confirming/self certifying on following aspects at the time of submitting their proposals to DEA:

- i) Support through EAP loans would generally be utilised in areas within the overall national priorities & harmonize with national objectives and that such proposals do not overlap with an already available source of funding.
- ii) The State's contribution for such projects (i.e. counterpart funding) is clearly indicated by the State at the time of submitting the project proposal to DEA.
- iii) For the EAP loans passed on to the States, the commitment charges, foreign exchange risks, etc are borne by the States concerned.

- iv) In case, requirement of loans tend to breach the overall borrowing ceiling of the State during the loan disbursal period, the State will be required to substitute an otherwise agreed source of borrowing so as to remain within the net borrowing ceilings.

5. In order to monitor the States' liabilities arising on account of EAP loans effectively, the following revised process is prescribed:

- i) After conclusion of loan negotiations for EAP, DEA would indicate to DoE the nature of projects, size of loan, tenure of loan, phasing of loan disbursal, interest charges and commitment charges, etc as negotiated with the lenders.
- ii) CAAA would indicate the schedule of loan disbursal, extent of loans falling due for repayment, and overdue liability, Commitment charges, if any, to be borne by the States.
- iii) Based on the details/inputs received from DEA and CAAA, PF – I Division in Department of Expenditure would effectively monitor the debt sustainability position of the States.

6. Borrowings made by a State in excess of entitlement of a State upto the end of 3rd quarter of a financial year, if any, would be adjusted against the borrowing space of the State for 4th quarter. In any case, the excess borrowings made during the financial year will need to be adjusted against the net eligibility of borrowing ceiling for next financial year.

7. The above decision will be reviewed periodically after every two years to ensure that the overall liabilities on account of external loans remain sustainable.

(G.C. Murmu)

Joint Secretary to Government of India

To
Finance Secretaries of all the States.

Copy to:

1. PPS to Finance Secretary & Secretary (EA), North Block.
2. PPS to Secretary (Exp), North Block.
3. PPS to Addl. Secretary (Exp), North Block.
4. Addl. Secretary (EA), DEA, North Block.
5. Joint Secretary (BC), DEA, MoF, North Block.
6. Joint Secretary (MI), DEA, MoF, North Block.
7. Joint Secretary (Budget), DEA, MoF, North Block.
8. CAAA, DEA, MoF, Janpath Bhawan, New Delhi.

(G.C. Murmu)

Joint Secretary to Government of India

No. 04/01/2011-FB-II
Government of India
Ministry of Finance
Department of Economic Affairs
MI Division

New Delhi, the 1st December, 2011

Circular

Subject: **Minimum Counterpart funding for World Bank and ADB Assisted projects**

1. Projects funded by the World Bank and the ADB usually have the following funding pattern:

- (a) External Assistance component
- (b) Counterpart fund by Governments / PSUs (in case of Central PSUs)
- (c) Funding by others (e.g. ULBs, Gram Panchayats, Public contribution etc.)


2. The policy for counterpart funding of projects assisted by the World Bank (IBRD/IDA) and the ADB has been considered in the Department of Economic Affairs. It has been decided that the minimum counterpart funding to be provided by the Governments/PSUs (in case of Central PSUs) for World Bank and ADB funded projects will be as follows:

- (i) Central Sector Project - 50% of project size
- (ii) State Sector Projects - 30% of project size
- (iii) State Sector Projects (Special Category States) - 20% of project size


3. For infrastructure sector projects which have their own revenue streams, the external assistance component will be further tailored to encourage co-financing and innovative financing.

4. For projects seeking to address disaster situations, the counterpart funding will be determined on case-to-case basis.

5. The External Assistance Component of State Projects will be passed on to the States as per the existing policy.


(Nilaya Mitash)
Director (MI)
Tel. No. 2309 2387

1. All Union Line Ministries (Secretaries to the Departments/Ministries, Joint Secretaries Coordination) All State Governments (Chief Secretaries; Finance Secretaries)
2. PS to FM, Sr. PPS to Secretary (EA), PPS to SS (EA)
3. PS to Deputy Chairman, Planning Commission
4. Secretary, D/o Expenditure
5. All Joint Secretaries in Department of Economic Affairs
6. All Directors/Deputy Secretaries/Under Secretaries/Section Officers in MI Division.
7. O/o ED, World Bank, Washington DC, USA
8. O/o ED, ADB, Manila, Philippines
9. World Bank/ADB/IFAD offices, New Delhi
10. NIC, North Block *(with the request to adequately place this circular on the Ministry of Finance website).*


(Nilaya Mitash)
Director (MI)

Comparison of LIBOR based interest rates charged by the World Bank, ADB, AIIB and NDB

	Average maturity(AM)up to 8 years	8 to 10 years	10-12 years	12 to 15 years	15 to 18 years	Greater than 18 years but less than 20 years	Other charges
IBRD (fixed spread)	LIBOR+ 0.75%	LIBOR+ 1.00%	LIBOR+ 1.10 %	LIBOR+ 1.30%	LIBOR+ 1.45 %	LIBOR+ 1.55%	Front end fee: 0.25% of loan principal (one time) Commitment fee: 0.25% of undisbursed loan amount (recurring)
IBRD (Variable spread)	LIBOR+ 0.44%	LIBOR+ 0.54%	LIBOR+ 0.64%	LIBOR+ 0.74%	LIBOR+ 0.84%	LIBOR+ 0.94%	Front end fee: 0.25% of loan principal (one time) Commitment fee: 0.25% of undisbursed loan amount (recurring)
AIIB (fixed spread)	LIBOR+ 0.75%	LIBOR+ 0.90%	LIBOR+ 1.00 %	LIBOR+ 1.15 %	LIBOR+ 1.30 %	LIBOR+ 1.40%	Front end fee: 0.25% of loan principal (one time) Commitment fee: 0.25% of undisbursed loan amount (recurring)
NDB	6 M LIBOR+1.36%	6 M LIBOR+1.46% (average maturity of 8-13 years)		6 M LIBOR+1.51% (average maturity of 13-16 years)	6 M LIBOR+1.56% (average maturity of 16-19 years)		Front end fee: 0.25% of the loan amount Commitment Fee:0.25% [The commitment charge is effective 60 days after the signing of the Loan Agreement is levied as follows: (a) in the first year 15% of the Loan amount less amounts disbursed; (b) in the second year, on 45% of the Loan amount less amount disbursed;

					(c) in the third year, on 85% of the Loan amount less amounts disbursed; and (d) thereafter on the entire undisbursed Loan amount.]
ADB	LIBOR + 0.38% (up to 13 years of average maturity)		LIBOR + 0.48% (up to 16 years)	LIBOR + 0.58% (up to 19 years)	Front end fee: Nil Commitment fee: 0.15% of undisbursed loan amount (recurring)

World Bank IBRD Pricing link:

<http://treasury.worldbank.org/bdm/htm/ibrd.html>

FORMAT FOR SUBMITTING PRELIMINARY PROJECT PROPOSALS

1.	Name of the Project					
2.	Sectoral area					
3.	Total Financial outlay					
4.	Details of the external development agencies (and the amount sought from each)					
5.	Financial arrangement					
	Total external assistance	Counterpart funds being made available by				Total
		Implementing agency	State Government	Central Government	Others, if any	
6.	Project duration (dates/months/years)					
7.	Location of project					
8.	Previous phases, if any					
9.	Statutory required					
10.	Statutory obtained					
11.	Details of Feasibility Studies done, if any					
12.	Implementing agency					
13.	Basic design of the project					
	Goals and Objectives					
	Activities involved					
	Outputs of the project					
	Outcome of the project					
	FC and TC component					
14.	Target population / groups					
15.	Detailed Action Plan (Year wise)					
Year	Physical Progress			Financial Progress		
16.	Quantitative and qualitative (verifiable) target indicators					
17.	Environmental sustainability of the project					
18.	Land acquisition / Resettlement and Rehabilitation involved					
19.	Linkages with Similar Projects					
	(i)	Information regarding similar projects undertaken previously (add evaluation reports, if any)				
	(ii)	Does the project form part of the				

	sectoral project? If yes, who are the other partner with details of the specific activities being undertaken by them	
20.	Finance Plus Element	
I.	Systemic or Transformational Impact	
II.	Innovation and Piloting of new Approaches	
III	Innovation in financing and Leveraging	
