Indian Public Policy Review 2023, 4(3): 01-42
https://doi.org/10.55763/ippr.2023.04.03.001

IPPR

The Nature and Implications of Off-Budget Borrowings in India: Centre and States

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Abstract

India has a long-standing problem with data gaps, which have serious implications for fiscal policy and economic growth. The lack of transparency around off-budget borrowing is a major example of data gaps in India, and has been persistent across the Union and state levels. The paper examines the regulatory framework and institutional gaps surrounding off-budget borrowings in India. It attempts to build a comprehensive understanding on the methods used for such borrowings and ascertains their true extent. The paper relies primarily on data from CAG audits of the Union and state finance accounts. The paper welcomes the Union's recent actions to make transparent and begin to do away with the use of off-budget borrowings. However, more actions are needed to close this form of data gap, at the Union and the states and, meanwhile, the Union should focus on ensuring the full reporting of these borrowings. This calls for an improvement in the coverage, timeliness, quality and integrity of fiscal reporting, in line with international standards. Eventually, that could be best achieved with a comprehensive and consolidated PFM law for the Union and the states.

Keywords: Data Gaps, Off Budget Borrowings, State Borrowing, Fiscal Federalism, Transparency, Fiscal Reporting, Fiscal Responsibility

JEL Codes: H83, H81, H74, H77, H83, H61

Publication Date: 31 May 2023

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# The authors would like to thank Anoop Singh for his mentorship and guidance throughout this research, and are also grateful to Srinivas Alamuru, Subodh Mathur, Honey Karun, Kandarp Patel, Janak Raj, and colleagues at CSEP for their valuable insights and comments on earlier drafts of this paper. The authors are solely responsible for any errors.

I. Introduction

Broadly, we define 'data gaps' as fiscal data that are either unreported or miscategorised. Data gaps tend to reflect gaps and inconsistencies in the legal and regulatory framework. The Fifteenth Finance Commission (FFC) (2020) highlighted several gaps in India's existing Public Financial Management (PFM) framework.[1] These gaps include inconsistencies in the laws and regulations pertaining to fiscal discipline, budget formulation, public procurement, and monitoring and reporting, as well as in their implementation. Beyond such legal gaps, data gaps in India could also result from institutional gaps. Among these, as the commission highlights, India does not have a dedicated, independent fiscal institution such as a Fiscal Council that could help in improving the reporting, collation, assessment, and coordination of fiscal data.

In this paper, we focus on the data gap of off-budget borrowings, which has been widespread and generally entrenched in India's fiscal reporting both at the Union and State levels. The Comptroller and Auditor General (CAG) of India and the FFC (2020) have expressed concerns on the growing prevalence of off-budget borrowings in the country. Fortunately, at the Union level, the issue has been taken up by the government over the last few years.

The 2019-20 Union budget enclosed a statement of extra budgetary resources (EBR) employed by the (central) public sector entities. Budgets that followed dealt with such borrowings to varying degrees. FY 2020-21 witnessed discontinuation of off-budget borrowings for Food Corporation of India (FCI) – generally the largest off-budget borrower at the Union level. The estimated extra-budgetary allocation to all the ministries was brought down to zero in FY 22, barring a Rs 30,000 crore provision for meeting additional resource requirements of public agencies, which too was eliminated in the following year. With much attention given to the subject of off-budget resources, public attention to it has increased as the amounts involved have grown, now especially in the States.

Characterising off-budget borrowing as a data gap operating in the context of a legal gap, this paper studies the modalities, extent, trends, and regulatory context of off-budget borrowings at the Union and State levels in India. On this basis, it makes recommendations and outlines a way forward for India to address this issue across the levels of government.

The primary issue that this paper seeks to address is the lack of adequate reporting of the full extent of government finances. Rather than evaluating how governments choose to conduct their fiscal operations, we are more concerned with how they report them. It is worth noting here that given the very nature of the problem, data relating to off-budget borrowing is scarce; for some States, it is simply unavailable. The analysis, naturally, focuses on those States for which numbers are available in the public domain. This does not necessarily mean that the States discussed in this paper are the ones that have resorted to off-budget borrowing the most. For the other States, it is difficult to come to any conclusion because the extent of their off-budget borrowings still cannot be gauged.

The paper is organised as follows. The immediately following section elaborates on the general problem of data gaps, and how legal gaps contribute to them. Subsequently, the data gap of off-budget borrowings is introduced, with a detailed explanation of what it entails, and the modalities through which governments resort to it. The next section undertakes a detailed analysis of the available data on off-budget borrowings at the Union and State levels, identifying trends and bringing out insights. Given the legal and regulatory contexts of data gaps, the paper then surveys the existing statutes and rules, at Union and State levels, that seek to regulate off-budget borrowing. Building on the range of existing regulatory models revealed by this exercise, this section also makes an argument for how off-budget borrowing should be regulated, in order to adequately fill this data gap. This discussion allows the next section to critically evaluate the Union's recent intervention in regulating sub-national off-budget borrowing, via Article 293 of the Constitution. Finally, the last section discusses how India can sustainably tackle off-budget borrowings, by outlining a way forward.

II. Data gaps and legal gaps

A) The problem of data gaps

The presence of data gaps suggests shortcomings in a country's PFM system. Deficiencies in fiscal reporting make it difficult to accurately assess the quality of fiscal spending, use fiscal policy as a tool for economic growth and development, and accurately prioritise expenditure.

Some of the data presently generated by India's PFM system is not comprehensive in its coverage, and is not subject to timely external scrutiny.[2] This is because India's fiscal data is replete with discrepancies,[3] misclassifications,[4] and non-comparability,[5] which creates challenges in consolidating fiscal data. Such data gaps are an especially concerning issue in India's present context, as it seeks to emerge from the enormous fiscal strain of the COVID-19 pandemic and use government capital expenditure as a catalyst for recovery and growth. Thus, transparency in fiscal reporting is critical for India to effectively monitor its fiscal position, and use available resources efficiently (Singh, 2023).

In the post-pandemic period, the Union Government has focused on increasing capital expenditure. However, despite capital-intensive projects typically being spread across multiple years, the annual budgeting exercise generally only lays down short-term (yearly) funding plans. The difference between the total and the budgeted period of the project constitutes another major data gap.

Lack of effective public investment management practices risks cost overruns and revenue shortfalls. For the financial viability of long-term projects, revaluation of the extent of resources absorbed by them is necessary. Projects can often suffer from inadequate funds (or non-allocation of funds) in the years after they are announced, and run the risk of causing significant sunk costs. The lack of a regularly published medium-term expenditure framework, that would lay out spending plans over a period of time, leads to inefficient allocation of resources.

Standard budgeting exercises – that can help ensure that long-term commitments are fulfilled, and that can evaluate the available fiscal space to accommodate new projects – are not practised currently. With a 33% rise in capital expenditure in the annual budget of 2023, performance-based budgeting is another area that needs to be looked at (Kukreja, 2023). Defining outcome indicators to assess the development of priority and high-importance projects is needed to improve transparency and accountability in their execution.

Additionally, since the current budgeting practices are almost entirely annual in their orientation, the process of legislative scrutiny and approval are also oriented accordingly. However, given how multi-year projects foreseeably involve medium-term expenditure commitments, legislatures should be given the opportunity to assess the impact of such commitments as well, when approving the budget.

State-owned enterprises (SOEs) are prominently involved in building infrastructure. State-controlled banks and other vehicles often back capital-heavy projects, and absorb the losses incurred in the process, as Richmond et al (2019) show in certain countries' SOEs. These enterprises typically enjoy preferential access to debt from financial institutions and other lenders due to government backing. Lack of information regarding the debt profiles of these enterprises is a data gap, as SOE debt often becomes government debt – as we will see in the case of off-budget borrowings later in the paper. Medium- and long-term planning for financing infrastructure can better ensure the financial viability of projects with long gestation periods, enhance fiscal discipline, and help prevent bailouts.

An International Monetary Fund (IMF) & Financial Stability Board (FSB) (2009) report highlighted that data gaps regarding exposures taken through off-balance sheet entities had left markets and policymakers unprepared for the Global Financial Crisis. As part of the Data Gaps Initiative-2[6] recommendations, G-20 countries are expected "to provide comprehensive general government debt data with broad instrument coverage" (Heath & Goksu, 2016, p. 30).

In June 2022, at the end of DGI-2, a progress report noted for India that "an estimate of a comprehensive general government data including centre, states, local government and public sector enterprises is not available with us" (IMF & FSB, 2022b, p. 13). Remarkably, at the completion of DGI-2, India was the only G20 country that had not even partially met this target (IMF & FSB, 2022a). Despite having made some progress in other aspects of fiscal reporting, India's problem of off-budget borrowing remains largely unaddressed. As India assumes the G20 Presidency for 2023, this serves to underline the urgency of addressing this data gap.

B) How legal gaps contribute to data gaps

As the FFC (2020) highlighted, there are gaps between the broad PFM structure outlined in the Constitution, and the operational rules, regulations, guidelines, and manuals that operationalise the PFM system. The existence of these gaps leads to avoidable complexity and inconsistencies, and ultimately affects the quality of the fiscal data that the PFM system generates. It also enables the circumvention of fiscal rules contained in the fiscal responsibility legislations (FRLs) at Union and State levels, through practices such as off-budget borrowings and misclassifying revenue expenditure as capital expenditure.[7] Legal gaps, such as inconsistencies between definitions in the FRLs, also lead to discrepancies in reported debts and deficits, and affect the veracity of projected numbers and scenarios.

Legal gaps can subvert constitutional principles in unintended and unforeseen ways. This can be illustrated through the example of the Public Account. Under the Government of India Act, 1935, the executive's final sanction was required to withdraw funds from the public account (which was the only government account at the time) (Government of India Act, 1935, S. 151(1)). In order to establish legislative supremacy over financial matters, the framers of the Constitution did away with this executive sanction, and replaced it with an Appropriation Act, to be passed by the legislature itself (Constituent Assembly Debates, 1949a, para 112; India. Const. Arts. 114 & 204). But in order to exempt routine withdrawals, such as for repaying depositors under small saving schemes, from formal legislative approval, the Constitution does not require an Appropriation Act for withdrawing money from the Public Account (Constituent Assembly Debates, 1949b, para 308).

The framers of the Constitution applied different standards of scrutiny for the Consolidated Fund and the Public Account only because they did not envisage the latter as containing revenues that the government would use to finance its regular expenditures. But as this paper will illustrate, in the case of the National Small Savings Fund (NSSF), the Public Account has been routinely misused as an instrument for off-budget borrowing, thus subverting the cardinal constitutional principle of legislative supremacy over fiscal affairs.

While the constitutional distinction between the Consolidated Fund and the Public Account remains relevant, there is a legal gap insofar as regulation of the Public Account is concerned. This legal gap has, in turn, contributed to the data gap of off-budget borrowing. This is illustrative of how the broad structure of the Constitution has not been adequately filled in with appropriate regulation at the statutory level, resulting in constitutional principles being compromised in practice.

III. Introducing off-budget borrowings

A) What are off-budget borrowings?

In this paper, we define off-budget borrowings as borrowings which are not reflected in the budget, even though budgetary resources will have to be used for their repayment either in the current or future period. Off-budget borrowers may include PSUs, Special Purpose Vehicles (SPVs), and/or the government itself.

A lot of PSUs rely substantially on budgetary support from the government in order to run their operations and perform their functions. Beyond budgetary support, PSUs also rely on other sources of financing, including borrowing. A typical example of off-budget borrowing involves a PSU borrowing an amount in its own name, but the responsibility for repayment lying with the government, and this liability not being reflected in the government's budget.

Another type of example involves the finance ministry resorting to off-budget borrowings on behalf of other government ministries or departments. For example, instead of incurring a budgeted expenditure from the Consolidated Fund of India (CFI) by paying for the food subsidy to FCI, the corporation was given loans from the Public Account. Withdrawal of such loans, as discussed, does not require any legislative approval. The liability was only partially reflected in the government's balance sheet at a much later date.

One of the reasons why governments may be resorting to off-budget borrowings is to bypass the debt and fiscal deficit targets under their FRLs. In the case of State governments, they are also bound by the hard borrowing limits imposed on them by the Union under Article 293(3) of the Constitution. These limits could serve as a strong incentive for such governments to access funds through off-budget means, when they do not have any further scope to do so on-budget.

It might also be the case that, at the time the PSU borrows, the government does not bear the primary responsibility for repayment; yet, at the time of repayment, budgetary resources are utilised for this purpose. This happens in the case of contingent liabilities, where, for example, if the PSU defaults on repayment, the government (as the guarantor) has to step in to repay the debt. But since in these cases, it is not clear at the outset of borrowing itself that the repayment liability rests with the government, we do not consider contingent liabilities as off-budget borrowing. After all, it is also possible that the contingency does not arise at all, since the PSU was able to repay the debt by itself.

Official definitions of off-budget borrowing vary across authorities, with different governments, laws, and the CAG having their own versions. One example of an official definition (that aligns with our proposed definition) is as follows: "Off-Budget Borrowings" mean non-budgetary receipts that need to be serviced by way of interest and principal repayment directly from the budget, and in which the liability is not contingent in nature (Maharashtra Fiscal Responsibility and Budget Management Rules, 2006, rule 2(h)). However, in cases where interest and/or principal is repaid by the borrowing entity from the grants received from the government, and not directly paid by the government, it is difficult to distinguish the component of the grant that will be used for repayments.

India lags behind its peers in the G20 when it comes to debt reporting. A prerequisite to effectively implement fiscal policies is having access to the right data. Existence of off-budgetary debt is a problem as it is generally unscrutinised and unreported. This asymmetry in information is a concern in systems based on democratic accountability. Citizens have a legitimate interest in knowing the full extent of the fiscal affairs of the governments they have voted into power. By resorting to off-budget operations, governments place themselves beyond democratic scrutiny. Not only is this problematic in and of itself, but it also leads to sub-optimal governance and policy outcomes.

The need for accurate data escalates when the economy is in a post-pandemic state. The budgeting system needs to stay true to certain principles, one of them being the principle of universality, which states the need for one budget for all transactions –thus ruling out extra budgetary transactions . The Union budget, which – unlike State budgets – receives much limelight and is subject to robust scrutiny, still generally stops short of full disclosure by not defining and revealing off-budget borrowings exhaustively.

B) How do governments resort to off-budget funds?

Governments at the Union as well as State levels undertake off-budget borrowings in a variety of ways. In this sub-section, we highlight commonly used methods.

(i) NSSF Borrowings

The NSSF, a part of the Union's Public Account, receives deposits under National Savings Schemes. The balance in the fund has been regularly invested in special government securities. Withdrawals from the NSSF do not require prior approval from Parliament (since it is part of the Public Account), which makes it easier for the Union government to use this fund as a source of extra-budgetary financing. Very often, the government uses this gap, and many entities receive loans from this fund. The recipients include central PSUs and Union ministries for projects implemented by them.

NSSF liabilities are included in the Statement of Liabilities of the Central Government, which forms part of the Union Receipt Budget. Even though these liabilities are included in the government's total liabilities, they are not reflected in the fiscal deficit. This is because, for calculating the Union's fiscal indicators, such as the fiscal deficit and revenue and capital expenditure, only the CFI's balance is considered. The expenditure incurred from the NSSF balance is not included as part of total government expenditure. Also, the NSSF deficit is not merged with the CFI deficit, resulting in an under-inclusive deficit statistic. The Union's fiscal deficit, legally capped at 3% of GDP, thus remains unaffected by the use of NSSF funds (Fiscal Responsibility and Budget Management Act, 2003, S. 4(1)(a)).

The issues with this method do not end here. In several instances, the CAG has found that resources received by an entity as recorded in the NSSF account were lower than the true numbers. Wilful understatement of the fund allocation indicates a bigger problem than issues with accounting categories: one of intentional misrepresentation. The problem has persisted over several years and across public entities, and needs close scrutiny.

(ii) Government Fully-Serviced Bonds

A bond is defined as a debt instrument by which an entity borrows money from an investor for a pre-defined period and interest rate. PSUs make use of Union government bonds to raise funds from the market. Special securities issued by the government to banks, PSUs, and other entities are listed in the Asset and Liability Statement of the Receipt Budget. Sometimes the securities are in the form of government fully-serviced bonds, where the entire liability falls on the Union government and is not shared by the PSU. Despite this, some of these bonds do not feature under government liabilities in the budget.

Regarding this, Basumatari & Tarwadi (2021) state that "The debt servicing of these bonds is a charged expenditure on the central budget. Given that these bonds will be a part of the central government's budget, debt servicing will form a part of the government's deficit, and thus, debt." For this reason, the inclusion of such bonds in the budget is crucial at the time of creation of the liability. Only this would provide a full picture of the government's fiscal health, and prevent unforeseen strains on budgetary resources at the point when these liabilities materialise.

(iii) Domestic Market borrowings

State PSUs and SPVs raise resources from markets to meet the financial requirements for providing services for which government is typically responsible (for instance, a drinking water supply project, which is a welfare scheme of the government, but being implemented by a PSU or an SPV). In several cases, the State government is liable for servicing the principal and interest obligations of the debt picked up by State PSUs, despite not being listed as an explicit guarantor. Since PSUs are distinct legal entities, formally separate from the State government, States argue that PSU borrowings are on the strength of the PSU's own balance sheet alone. Ultimately, despite the government being liable, this kind of liability escapes the State government's accounts, and can only be found in PSU accounts.

(iv) Foreign Market Borrowings

Apart from raising funds from domestic markets, PSUs have also directly approached external funding agencies. As per Articles 292 and 293(1) of the Constitution, only the Union Government has the power to borrow from overseas, and States are expressly restricted to borrowing within the territory of India.

Despite this constitutional prohibition, there are examples of State PSUs resorting to overseas off-budget borrowings which will have to be repaid by their State Government, through the issue of 'masala bonds'. These rupee-dominated bonds are instruments of debt raised in foreign markets in Indian currency, instead of the local currency or dollars. For example, the Kerala Infrastructure Investment Board (KIIFB) raised Rs 2,150 crore in 2018-19 through masala bonds, which the CAG has observed is in violation of Article 293(1). The repayment of the KIIFB borrowings was done from the State petroleum cess and motor vehicle tax, which makes them a direct liability of the State. In the same year, the Andhra Pradesh State government cleared Rs 2,000 crore of bonds to be raised by the Capital Region Development Authority (CRDA), which also included masala bonds.

(v) Special Banking Arrangements

Special banking arrangements (SBAs) refer to the arrangements made by the government with the banks to facilitate cash and credit flow outside the budget appropriation. The beneficiary body can be a PSU, SPV, or any Implementing Agency involved in quasi-fiscal operations with the government.

In the past, SBAs have been used to postpone budgetary expenditure on fertiliser subsidies, which is to be paid to fertiliser companies. Often, the payment is not made in the same year, which results in carryover liabilities. To make up for non-payments, Department of Fertilizers arranges loans from PSU banks to the fertiliser companies. The department also partially bears the interest on these loans. Fertiliser companies, at times, leverage the pending subsidy payments with the banks to avail credit.

In all five cases discussed above, the government's use of off-budget borrowing had the effect of deferring expenditure for the future, which would otherwise have to be incurred in the present. The interest repayments on borrowings are reflected in the year they are due; the repayment of the principal is postponed, and is neither reflected as an expenditure nor a liability in that year. This not only created a liability requiring future repayment, sometimes lasting well beyond that government's term, but – crucially – the liability was hidden, unaccounted, and unreported. When the time of repayment does arrive, CAG audits have revealed how in some cases a new debt is taken by the Union government or the PSU to service the old debt.[8] This creates a potentially indefinite loop of debt. Not having to pay their dues in a stipulated time, and not having to face any scrutiny from legislatures, markets, or citizens, can result in imprudent spending by the entities availing the loan.

C) Heightened relevance of off-budget borrowings

India showcases much higher levels of deficit and debt than other emerging economies (Rao, 2022). At a time when fiscal resources are strained and economic conditions are volatile, the practice of resorting to off-budget borrowings is especially fraught with risk. The prevalence and extent of this practice is a significant hidden liability that can cast a long shadow on the fiscal health and capacity of governments for years to come.

While the Union government has made progress in addressing this issue in recent times, states have done very little. The fiscal strains on Indian states are increasing due to a number of factors, including rising population in many states, the rising need for infrastructure development, low and stagnant state and local government tax receipts, and rising cesses and surcharges by the Union (that have reduced the divisible pool for the transfers to states, i.e. the funds that will be transferred to the states in keeping with the formula or division recommended by the Finance Commissions.)

In recent years, several state governments have had difficulty in meeting their financial obligations. This has been exacerbated by the fact that many states rely heavily on grants from the central government, which have often not kept pace with their expenditure needs. Other sources of revenue, such as GST, have also not been adequate to meet their expenditures. Additionally, India's economic slowdown has led to decreased tax revenues for state governments.

The COVID-19 pandemic further compounded these fiscal pressures; states faced increased demands for healthcare spending, while simultaneously experiencing reduced income due to lockdowns and other restrictions imposed by the government in order to contain the virus' spread. As a result of these various pressures, compounded by high legacy debt in many cases, more Indian states are now struggling with mounting debt burdens and deficits that threaten their long-term economic stability.

The FFC (2020) estimated the general government debt to have increased from 70% of GDP in 2018-19 to 90% of GDP in 2020-21. During this period, the fiscal deficit of all the states shot up by 38.4%, from Rs. 5.85 lakh crore to Rs. 8.1 lakh crore (Tiwari & Surya, 2021). The share of states in total central taxes has been around 29%, compared with the commission's recommendation proportion being 41% of the divisible pool (Tiwari & Surya, 2021). The issue of 'freebies' issued by state governments has become especially prominent, with the Election Commission of India as well as the Supreme Court weighing in on the subject.

With an intent to address state off-budget borrowings, the Union directed the states, in March 2022, to furnish their off-budget numbers. Borrowings made by the State PSUs and Special Purpose Vehicles (SPVs), where the state is to service the principal and the interest amounts either out of the state budget or by special assistance to these institutions, would now be accounted as states' liabilities. A detailed discussion on this will follow a subsequent section.

IV. Analysing the data gaps in the reporting of off-budget borrowings

The paucity of data on off-budget borrowings in India has constrained attempts to study the subject, at least empirically. To get a fair estimate of the total liabilities, Singh and Srinivasan (2004) added to the general government debt the debt of PSEs, and the guarantees issued to loss-making public enterprises. Total liabilities, 107% of the GDP, turn out to be significantly higher than the on-budget numbers which are widely used in policy formulation, and this can lead to an underestimated probability of fiscal strains.

Blagrave and Gonguet (2020) too base their extra-budgetary estimates on the borrowing requirements of PSEs. Using the fiscal deficits of the central and the state governments, which reflect their borrowing needs, and adding to it the borrowings by the central PSUs, they create a "metric that broadly captures the government and quasi-government borrowing need". The data of state PSUs was not used owing to its lack of availability.

In a similar attempt, Misra et al (2020) estimate the subnational extra-budgetary borrowings using the guarantees given by state governments as a proxy for the former. While it is true that guarantees are (contingent) liabilities that are not reflected through major financial indicators, it is also the case that not all guarantees materialise into actual liabilities. Besides, PSUs also operate on a PPP model (public private partnership) where the government often has only a percentage of the total stake in the firm, which limits its liabilities.

Attributing the entire liability to the government without considering enterprise revenues, reserves and assets, the odds of debt materialisation, and the ownership share is bound to reflect an overestimated figure. Kaur et al (2018) emphasise on a fair assessment of the fiscal risk posed by guarantees. The Reserve Bank of India (RBI) report of the Group to Assess the Fiscal Risk of State Government Guarantees (2002) proposed assignment of weights to guarantees for calculation of the true fiscal obligation.

The problem seems to persist geographically, as a similar trend is observed in studies conducting off-budget debt assessment of other nations. Zhang and Bernett (2014) create a new measure of fiscal activity in China which adds off-budget transactions to the general government statistics. They identify local government financing vehicles (LGFVs) created solely for infrastructure spending to consolidate their debt in the fiscal data, to distinguish them from other state-owned enterprises (SOEs), which could have their own resources.

The Fiscal Responsibility and Budget Management (FRBM) Review Committee (2017) discussed the issues pertaining to off-budget borrowings at the state level. Some states are of the view that their spending powers are limited by fiscal responsibility laws, and that extra-budgetary resources are inevitable to maintain capital and infrastructure expenditure. The committee recommended that the collation, analysis, and annual reporting of the extended public debt should be undertaken by both Union and the state governments in a supplementary budget document. The exercise will be useful in accounting for the challenges posed by guarantees, off-budget borrowings, and losses of parastatals. On a similar note, the Fourteenth Finance Commission (2014) endorsed full disclosure of extra-budgetary borrowings in the interest of transparency, and recommended they be eliminated in a time-bound manner.

> "The Finance secretaries candidly admitted that there is significant political pressure [to resort to off-budget borrowings]. However, in principle, most of the states recognized that such practices lack a sound accounting foundation and should be discouraged." - FRBM Review Committee (2017)
>
> "In the case of the many State Governments, despite efforts, we have not been able to arrive at tenable numbers of such liabilities." - FFC (2020)

For assessing the extra-budgetary load on the public resources, a meaningful analysis through actual data should be done. Reinforcing the need to release true numbers is a more prudent solution than developing methodologies for their estimation, especially for data that is not hard to gauge, but simply is not made accessible to the public, or not collected at all.

This paper, therefore, is an attempt to untangle the issue of extra-budgetary borrowings and make sense of the numbers that are available in the public domain. To know these numbers is to be aware of the gaps in the budget processes that cause such borrowings in the first place. It is also crucial that the system abides by the fiscal reporting standards to ensure reliability in public resource spending. Schick (1981) argued for financial controls in OECD economies with off-budget borrowings. India is in a comparable situation, with its growth being trammelled by an inefficient PFM system, of which extra-budgetary spending is a critical issue. The rest of this section looks at the extent of the back-door spending incurred by the Union and the States.

The Union government, in a much-lauded move, released 'Statement 27 – Statement of Extra Budgetary Resources (EBRs)'[9] employed by ministries as part of the 2019 budget. It showcased the resources availed through government fully-serviced bonds, NSSF borrowings, and SBAs from 2016 onwards. Since then, updated versions have been released with each budget. CAG audits of the Union government over several years point out the inadequacies of the statement, that includes deficiency in the format, as well as incomplete or non-disclosure of certain entities' debt.

The extra-budgetary details in statement 27 are available from 2016 onwards. The scenario before that remains unclear. It is difficult to draw conclusions from the available data, because of the extent of absences and understatement of several significant entries. For this reason, we have compiled a new statement 27, based on CAG audits, to give a more complete picture of the extra-budgetary liabilities.[10]

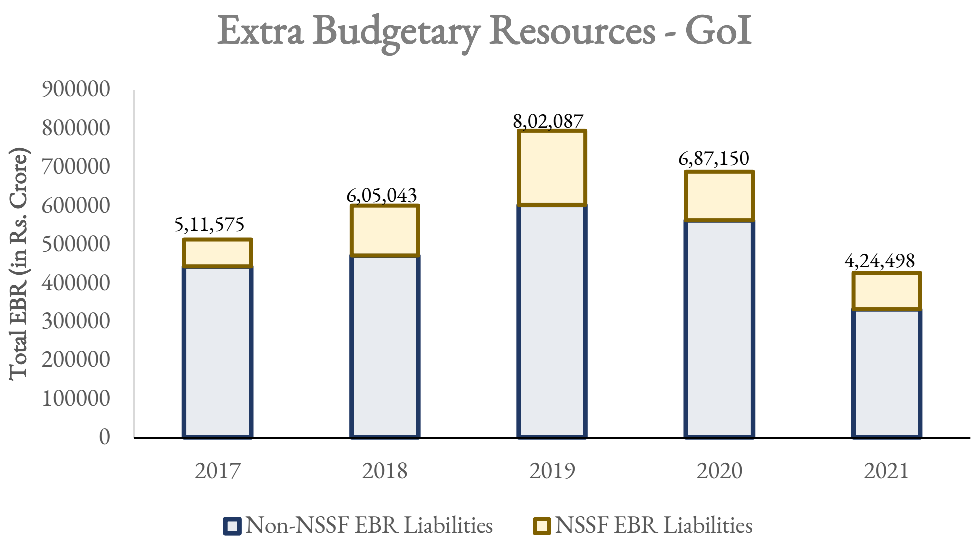
Even after this, many issues remain unresolved. The period of borrowings, interest rates, the repayable principal and interest amounts, and the carried forward debt remain unknown. The Ministry of Finance, in its reply[11] to CAG on the inadequate information disclosure via statement 27, stated that since repayments are done out of the consolidated fund, they are reflected in the expenditure profile of the budget.

> It is important to note here that these numbers are available in the public domain post-CAG audits of UGFA, and are not necessarily complete. It is, therefore, difficult to conclude that extra-budgetary debt has been going down since 2019, and that the intensity of the problem has fallen.

The Union government releases expenditure profiles in the ministry-wise statement of budget estimates[12] (SBE) every year, which shows the expenses made on account of the Internal and External Budgetary Resources (IEBR)[13]. The IEBR fund is provided apart from the regular budgetary support, and is specifically used for repaying the off-budget debt owed by each ministry. IEBR expenditure is also incurred by the Ministry of Finance to make direct repayments on behalf of some PSEs. The IEBR on various items can range from 17 to 21% of the annual budgetary expenditure. The Statement of Fiscal Policy in the 2018-19 budget too stressed the need to assess the IEBR allocated to PSEs to get a perspective on the capital expenditure incurred by the Union. Other methods of repayment include provision of grants to PSEs or government departments, or by redemption of bonds directly.

"The Ministry in its reply (October 2021) stated that Statement 27 was just a statement regarding investment through EBR. The repayable amount of EBR (Principal and interest) to be financed from Budget was reflected in the Statement of Estimate (SBE) against the concerned scheme of the demand." – CAG's Audit Report No. 18 of 2022, Union Government

Figure 1: Extra budgetary resource utilisation by the Union government

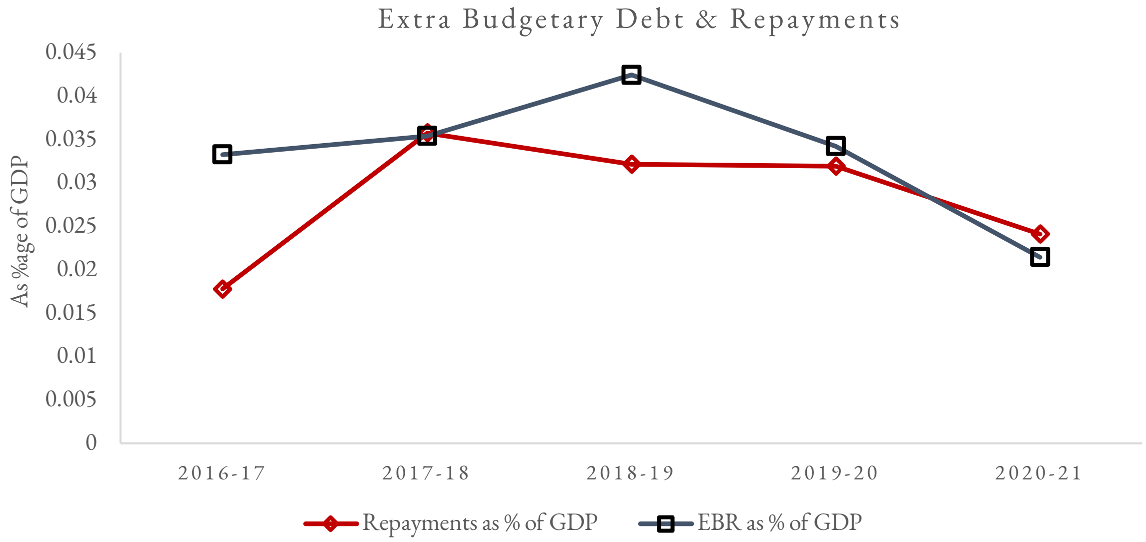


Source: CAG Union Audit Report (2016 to 2021), Ministry of Finance (2021)

Note: Non-NSSF liabilities comprise government fully serviced bonds (CAG audited Statement 27 numbers) and SBAs (which are only available in CAG reports)

Figure 1 shows an inverted-V trend in the total EBR utilisation by the Union. The total EBR had shot up to Rs 8,02,087 crore at the end of 2019, and stood at 4.24% of the GDP (Figure 2). The graph shows that the extent to which the Union government resorted to EBR had gone down in 2020 and 2021 to 3.42% and 2.41% of GDP respectively. This trend is likely due to the unavailability of CAG-audited extra-budgetary debt figures of borrowers including Food Corporation of India, NHAI, and Power Finance Corporation. The Ministry of Railways is another major borrower and secures funds via Indian Railway Finance Corporation (IRFC).

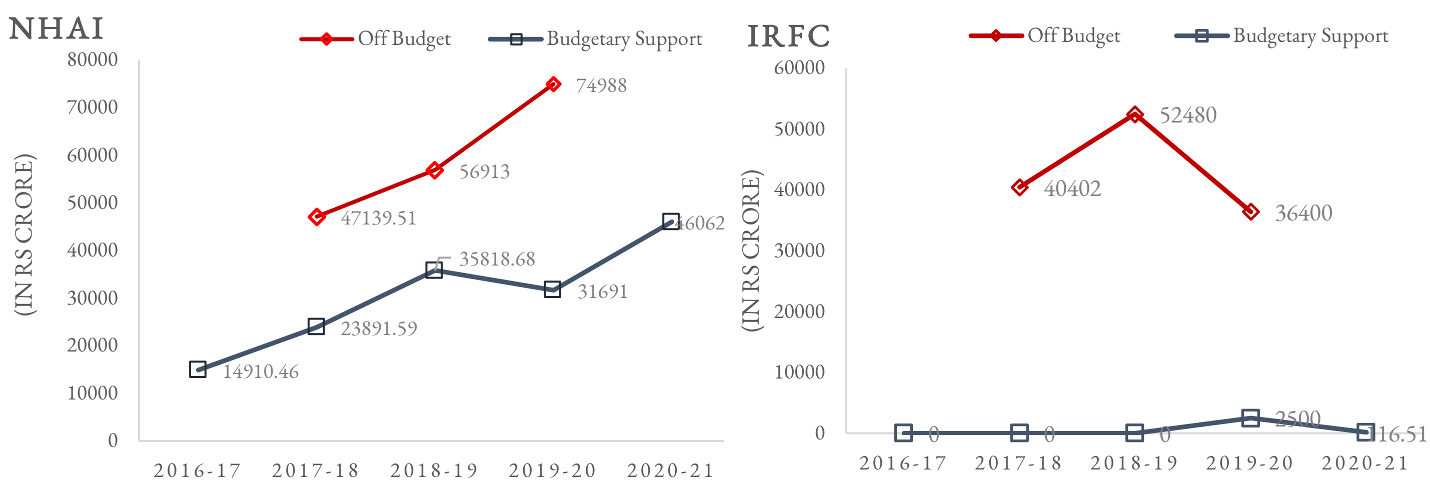
Figure 2: Extra budgetary debt (non-NSSF liabilities) and repayments as Percentage of GDP for GoI



Source: Ministry of Finance (2016 to 2021)

The IEBR allotments in the latest budget of the year 2023-24 have remained high. The total budget estimates for 2023-24 amount to Rs. 4.87 lakh crore. The highest borrowers, like previous years, are FCI, the oil and gas public enterprises, and the power sector enterprises. FCI had been allocated Rs. 61,000 crore in 2021-22, which has increased to Rs. 1.45 lakh crore in FY24 budget estimates. Indian Railways, which was drawing Rs. 73,000 crore in 2021-22, reduced its allocation in the latest estimates to Rs. 52,000 crore. While the public enterprises in the power sector are estimated to withdraw Rs. 60,000 crore as IEBR in FY24, the renewable energy is expected to have Rs. 37,000 crore at its disposal. The Union government, by releasing Statement 27 and progressively diminishing EBR utilisation in the budget estimates, has made clear its intention to tackle this fiscal issue. However, consistently high IEBR allotments continue to work against this intention.

Figure 3: Figure 3: Budgetary and extra-budgetary support to NHAI and IRFC



Source: CAG Union Audit Reports (2016 to 2021)

Beyond the numbers, it is worthwhile to study how some off-budget transactions actually occur. Let us consider one such example here. The National Highway Authority of India (NHAI) was created for infrastructure development on the government's behalf. It secures funding from the Union, and earns primarily through the toll revenues, which are not enough to meet its financial needs. It operates on funds received from both on and off-budget sources.

Meanwhile, the toll receipts from NHAI were instead being credited to the CFI as non-tax revenue. This 'government revenue' as then reinvested in NHAI. The Union reflected NHAI revenue as its own, which led to an increase in receipts and fall in fiscal deficit. On the other hand, it did not show NHAI's borrowings as its own, claiming that the liabilities were created against its own assets. The contrasting principles highlight the ability of the government to report a lower fiscal deficit. A similar case of Indian Railway Finance Corporation is detailed in Box 1.

The median off-budget borrower utilised funds to the extent of Rs 25,000 crore. The borrowed amount had been spent for various schemes like the Pradhan Mantri Awas Yojana (Rural), Deen Dayal Upadhayay Gram Jyoti Yojana, and irrigation projects like Pradhan Mantri Krishi Sinchai Yojana. Besides this, borrowings to the extent of Rs 20,000 crore were also made for PMAY - Urban scheme under the Ministry of Housing and Urban Affairs in 2018-19 via government fully serviced bonds, and another Rs 10,000 crore through NSSF.

Box 1: The case of IRFC

IRFC is a PSU that acts as the extra-budgetary financing arm of the Ministry of Railways (MoR) for acquisition or creation of the fleet of assets. IRFC raises funds from the markets to create rolling stock (rail vehicles) of Railways, which is leased to the MoR. In FY20, this comprised of nearly 70% of the total rolling stock of Indian Railways. Lease rentals received from the MoR are used by IRFC to service its own debt.

Extra-budgetary borrowing via PSUs is a tool used by governments to finance capital expenditure. Such expenditure is not reflected in the government's accounts. In case of IRFC too, the debt is separate from the Union government debt, on account of the former being a legally distinct identity from the latter. As per the GoI, funding from the IRFC works on 'leasing model', where the ownership of assets rests with the latter, and the government only exercises a 'right to use', which is a universally acceptable funding method.

While it is true that the government pays for the revenue of the IRFC from its own budget, the financial commitment between the two does not end here. Foreign lenders receive Letter of Undertaking (LoU) from the ministry as a guarantee for repayment of IRFC's debt in case of financial distress. For this reason, international credit rating agencies (CRAs) do not make a distinction between the IRFC's and the government's credit profiles.

GoI offers IEBR support for repayment of the capital component of IRFC's borrowings (figure 3). For the revenue component, it pays lease rentals. Since the debt is serviced from the budget, IRFC's debt is in fact, government debt. A more direct example as to why this should be the case follows.

Rail Vikas Nigam Limited (RVNL) is another central PSU, which is 100% owned by the MoR. In FY20, MoR received Rs. 1,407 crore from IRFC in one instance. The fund was passed on to RVNL, who used it to service its previous debt obligations to IRFC. In a way, the old debt obligations to IRFC were serviced using a new debt from IRFC, and is still not reflected in the UGFA.

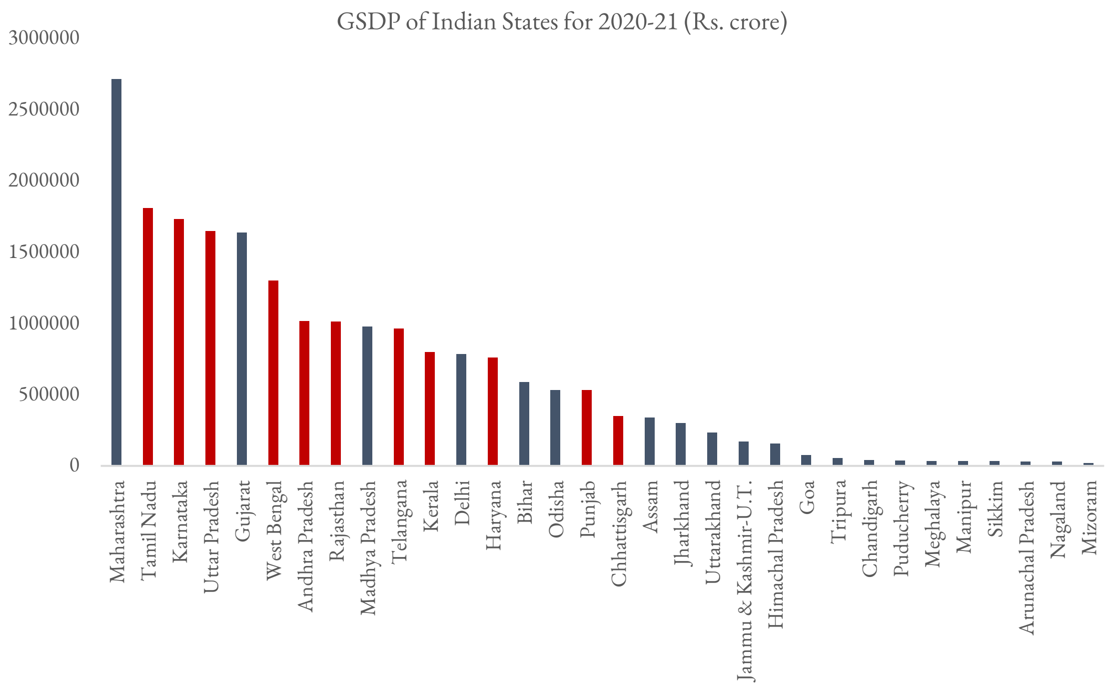
Since the ministry is responsible for IRFC's debt repayment from future CFI, the two are not as distinct as it is claimed. Furthermore, the borrowings were also not disclosed in the Statement 27 of extra budgetary borrowings. Table A3 shows the extent of such borrowings by the government.

B) States' numbers

From an economic perspective, Indian states are extremely heterogenous. The difference, owing to population, geographies, and socioeconomic compositions, is evident from varying gross state domestic products (GSDP). For example, Maharashtra's GSDP, the highest among all States in 2020-

21, was 150 times that of the lowest ranking Mizoram. We focus on some States with high GDSP in our analysis of off-budget borrowings, which are highlighted in figure 4.

Figure 4: GSDP of Indian States in 2020-21 (in Rs. Crore)



Data Source: RBI's Handbook of Statistics on Indian States
Note: States in red are the focus of further analysis.

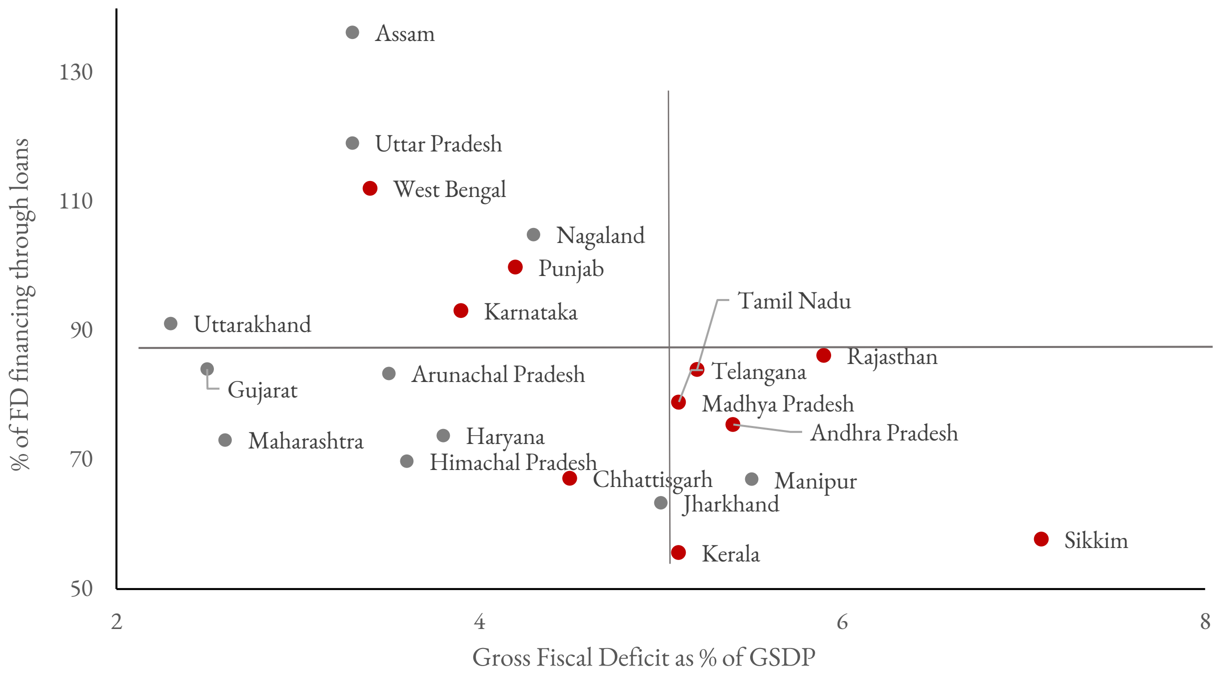
While GSDP is important to understand the economic growth, the true fiscal health can only be determined by parameters like the fiscal deficit and the debt burden of a State. To an extent, they indicate how well a State is able to manage its finances, maintain the difference between its receipts and expenditures, and is equipped to incur future expenses while servicing its old obligations.

For the latter, we look at how States financed their fiscal deficit in 2021. Finance Commissions have raised concern on the budgetary imbalances of States, where they resort to new borrowings to service the old ones. This leads to what the Twelfth Finance Commission called a 'self-perpetuating spiral of debt and deficit'; the Commission recommended that public finances should be steered away from such malefic fixtures.

States use plenty of methods to finance fiscal deficits. These include loans from the Centre and institutions like LIC, SBI, and NABARD, market borrowings, provident funds, reserve funds, issuing securities to NSSF, and deposits and advances, among others. We concern ourselves with market borrowings and loans from institutions to understand which states borrow the most to close their deficits.

Figure 5 shows states' fiscal deficits on the x axis, and the percentage of fiscal deficit financed using loans and market borrowings on y axis. In some cases, excessive borrowings were done to pay back previous borrowings to institutions (like LIC), other banks, NSSF, etc. Some have remaining surpluses that were not utilised while financing. In such cases, the percentage exceeds 100%.

Figure 5: Financing fiscal deficit of States (2021)



Data Source: RBI's State Finance: A Study of Budgets
Note: The States in focus have been highlighted in red.

It can be noticed that the states with high GSDP like Tamil Nadu, Karnataka, Uttar Pradesh, West Bengal, Andhra Pradesh, Rajasthan, etc (as can be seen in figure 4), fall mostly in the second and the fourth quadrant of figure 5. This indicates that they are either States with high share of market and institutional borrowings to finance deficits, or with high fiscal deficits. The discussion on off-budget borrowings will be limited to these fiscally-stressed States.

Before delving into the off-budget borrowings of States, it is important to be cognisant of the scarcity of this data. The off-budget borrowing numbers that follow are highly understated. One reason is the non-standard accounting of off-budget debt receipts in the financial accounts. For example, some governments may account for off-budgetary debt receipts under the Major Head 6003 - Internal debt of the State Government, while others may account it under MH 0075 - Miscellaneous General Services, as receipts.

There is also incompleteness of data in CAG audit reports on two levels. Firstly, for some states like Madhya Pradesh, Uttarakhand, and Gujarat, there is no data available at all on this aspect. Secondly, for states like Andhra Pradesh and Chhattisgarh, the data are not consistently available for the last few years. Karnataka is one state that reports off-budgetary debt and IEBR numbers in its Overview of Budget. However, the information is not sufficient to give a complete picture of the terms of the debt, including the lender, repayment period, interest rate, etc.

Based on the available data, 2021 had the highest total borrowings for all the states. The reason can be two-fold. First, CAG has most information around extra-budgetary debt post state finance accounts audits for FY21. It could also be the case that with increasing needs for capital, states tend to resort to off-budget borrowings. Outstanding off-budget liabilities of all the states combined, as on 31st March 2021, were Rs 2,52,308 crore[14]. Telangana being the highest borrower, had an outstanding off-budget liability of Rs 97,940.45 crore at the end of 2021, equal to 9.99% of the GSDP (Figure 6). The next highest off-budget borrowers are Andhra Pradesh, Karnataka, Kerala, and Tamil Nadu. In 2021, out of the 10 states that are analysed, the five southern States accounted for Rs. 2.34 lakh crore worth of debt, approximately 93% of the combined states' liabilities (off-budget).

As per their FRLs, states are required to maintain debt below a certain level, which they often miss. For example, Andhra Pradesh targeted total liabilities to not exceed 35% of the GSDP throughout 2015-16 to 2020-21 (Andhra Pradesh FRBM Act, 2005, S. 9(2)(ccc)). While the state has been able to maintain the ratio at 35%, it is only true if the off-budget liabilities are not considered. However, by its own definition, total liabilities mean *"the liabilities under the Consolidated Fund of the State and the Public Account of the State, and shall also include borrowings by the public sector undertakings and the special purpose vehicles and other equivalent instruments including guarantees where the principal and/or interest are to be serviced out of the State budgets"* (Andhra Pradesh FRBM Act, 2005, S. 2(l)). The State's off-budget liabilities comprise PSU liabilities, which when added to the total debt, the debt to GSDP ratio increases to 44% for the year 2020-21, much higher than the State's target.

Figure 7 looks at the debt-to-GSDP ratios of the four highest off-budget borrowers of 2021 to understand the unaccounted debt burden on the States. Kerala, unlike Andhra Pradesh, defines total liabilities as those upon the Consolidated Fund and the public account of the state (Kerala Fiscal Responsibility Act, 2003, S. 2(l)). The debt-to-GSDP target for 2019-20[15] was set at 29.67%, and the actual ratio exceeded the target and stood at 31.02%, without including off-budget debt (Kerala Fiscal Responsibility Act, 2003, S. 4(2)(c)).

(i) Who is borrowing on the states' behalf?

In the case of Andhra Pradesh, the extra-budgetary needs of the state seem to replicate the Union's to an extent. While FCI was one of the largest borrowers at the Union level, Andhra Pradesh's largest extra-budgetary borrower is the AP State Civil Supplies Corporation (APSCSC). It manages the entire value chain of the foodstuff and other essential commodities, and raised Rs 30,181 crore through EBR. The resource utilisation can be seen in Figure 8. In Telangana, the three top borrowers comprise up to 74% of the state's extra-budgetary needs (Figure 9). The next 24% is utilised by five public enterprises.

In most cases, there is a single largest borrower for each state that takes up the maximum share. In many states, power sector enterprises used the most extra-budgetary finances. Box 2 provides details on the financial strains that the sector faces.

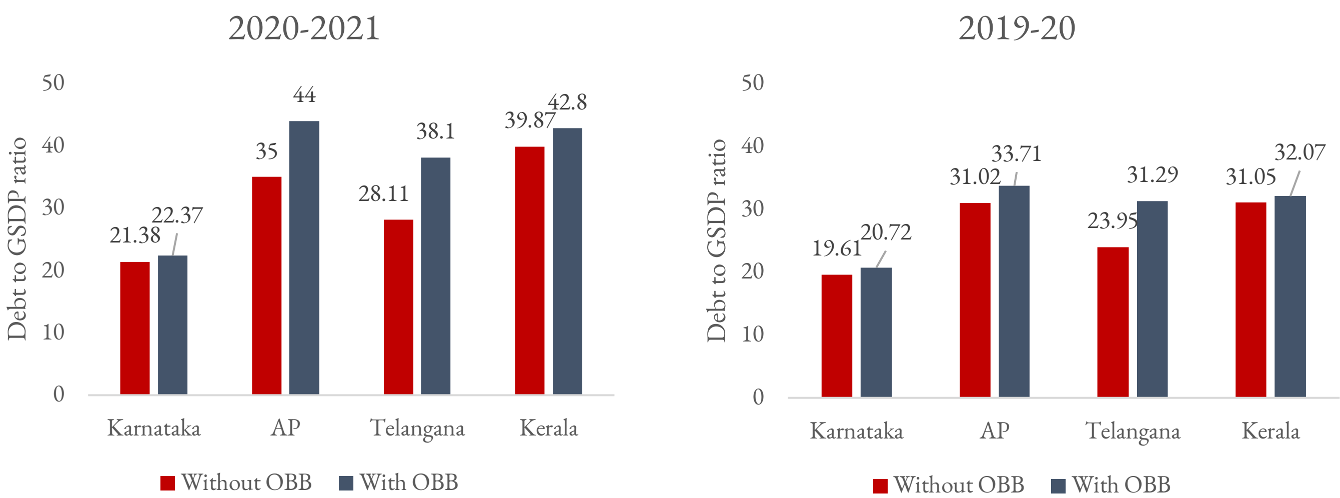
Figure 6: State wise off-budget borrowings as on 31.03.20XX (Rs crore)

State wise off-budget borrowings as on 31.03.20XX (Rs crore)							
State/Year	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Andhra Pradesh	7162	11867		10000	77,586.00	1,12,115.00	1,18,393.81
Chhattisgarh						2071.01	
Goa						788.55	
Haryana					419.5	405.75	802.00
Karnataka						18421.37	
Kerala					18699.08	16469.05	
Maharashtra	550	51					
Punjab		1425				10550.62	
Rajasthan	2787.25	2605.52	2372.91	2137.42	2,901.54	1804.41	
Sikkim			380.56	878.5			
Tamil Nadu	684.63	929	3754	774.52	703.78	15368.91	
Telangana		18,017			71,131.63	97940.45	
Tripura	0	0					
West Bengal						3016.64	

Source: State Finance Audit Reports of CAG (2021,2022)

Note: The blanks indicate unavailability of data

Figure 7: Debt to GSDP ratios of the four southern States who are major off-budget borrowers



Source: State Finance Audits Reports of CAG

Box 2: The financial strains on the power sector

State governments, who are the primary owners of the bulk of distribution companies or discoms, spend heavily to pay for electricity subsidies, which has considerably strained the former's finances. Funds are used to cover subsidy costs, infuse capital, cover losses, and service debt obligations.

The aggregate loss of 68 discoms went up by 66% in 2020-21 to Rs. 50,281 crore (PTI, 2022). The corporations have become incapable of running everyday operations without a capital dump by the states; servicing their own debt seems a far-fetched idea. Ujwal DISCOM Assurance Yojana (UDAY) was launched by the Union in 2015 for the revival of power distribution companies. Sixteen states took over the debt obligations of power corporations, while eleven just signed for improving their operational efficiencies.

States have drawn criticism from the CAG for not being able to reap the benefits of the scheme. Kerala State Electricity Board (KSEB) faces a 318% rise in debt obligations between 2015-16 and 2020-21 (The Hindu Bureau, 2022).

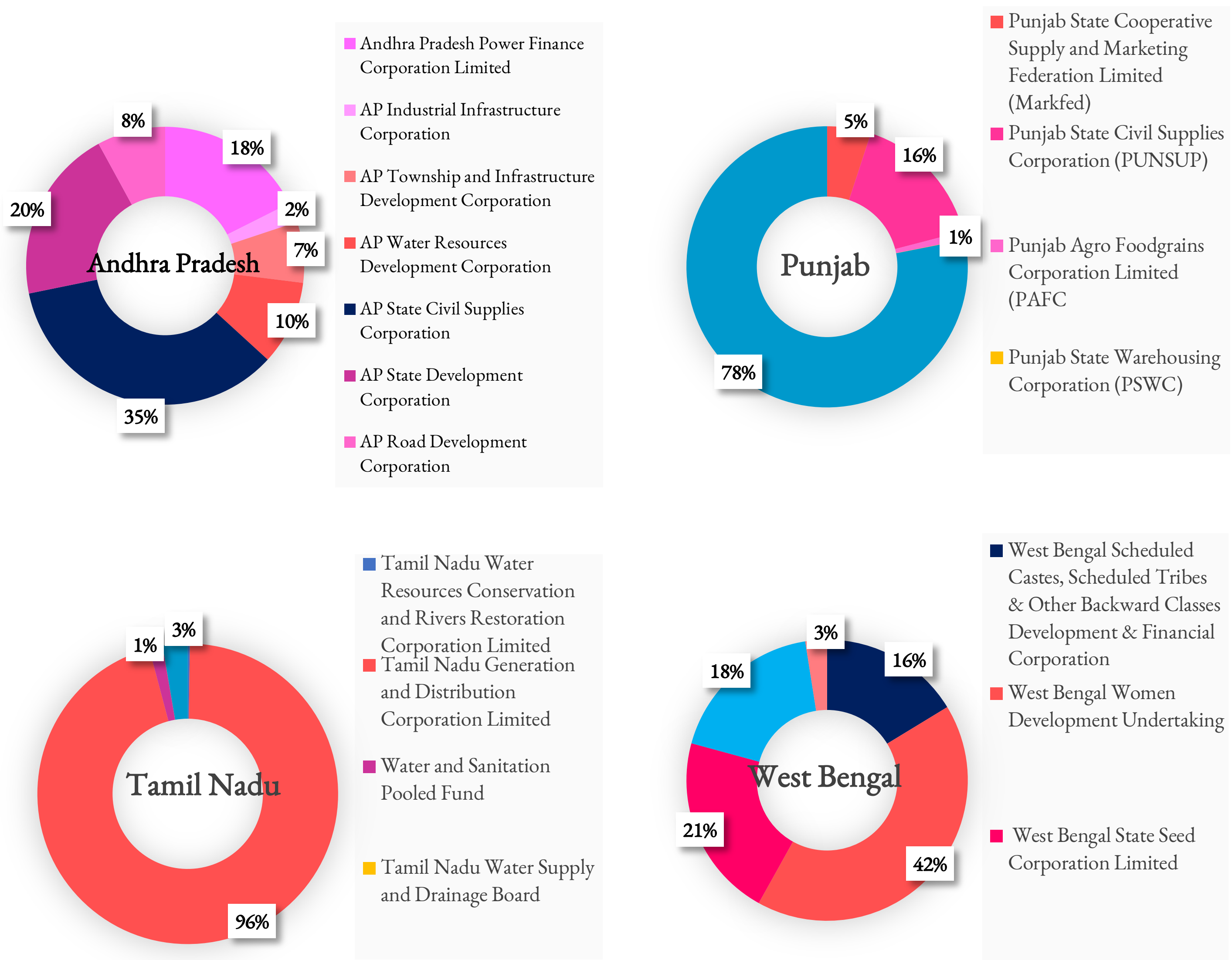
An overwhelming majority of extra budgetary funds go to the state PFCs, that is, to be serviced out of state budgets. The opacity surrounding the data obscures states' growth, and restricts the policy makers from conducting an accurate analysis. Andhra Pradesh PFC borrowed Rs. 15,161 crore in FY21. In the same financial year, Tamil Nadu Generation and Distribution Corporation (Tangedco) alone raised Rs. 14,700 crore out of the state's total off-budget borrowings of Rs. 15,396 crore. Tangedco is a subsidiary of Tamil Nadu Electricity Board (TNEB) and is responsible for installing thermal/gas/hydro power plants along with renewable energy. While Telangana spent Rs. 2,922 crore, Punjab too spent majority of its EBR on the power sector. Out of the entire Rs. 15,550 crore pool of extra budgetary funds, Rs. 8,238 crores went to Punjab State Power Corporation Limited (PSPCL).

The financial distress caused by discoms is consistent across states. Guarantees, too, if and when materialised, will add to the debt burden. The power sector accounts for more than 60% of the total outstanding guarantees by the State governments (PRS, 2020). The FFC was concerned about the financial sustainability of the power sector on account of highly subsidized prices to several consumer groups, including agriculture, inefficient regulations, and its unattractiveness for the private sector. Recommendations were made to the Ministry of Power to develop a monitoring index for states, and to create an incentive system based on the performance of the power sector.

(ii) The Trends in Irrigation

By the end of 2021, out of Rs 97,940 crore borrowed outside the budget by Telangana, more than Rs 36,000 crore was for a single project - Kaleshwaram Irrigation Project Corporation Limited. Karnataka too had spent the most off-budget amount in irrigation projects, by allocating funds to Karnataka Bhagya Jala Nigam followed by Karnataka Neeravari Nigam Limited. Approximately Rs 11,000 crore was borrowed by the two corporations out of the total Rs 18,102 crore of borrowings at the end of the FY 2021. Given that the revenue streams of these projects, if any, are unclear, it is not surprising that they rely so heavily on borrowings. At the central level too, the Department of Water Resources, River Development, and Ganga Rejuvenation has been a consistent borrower over the years.

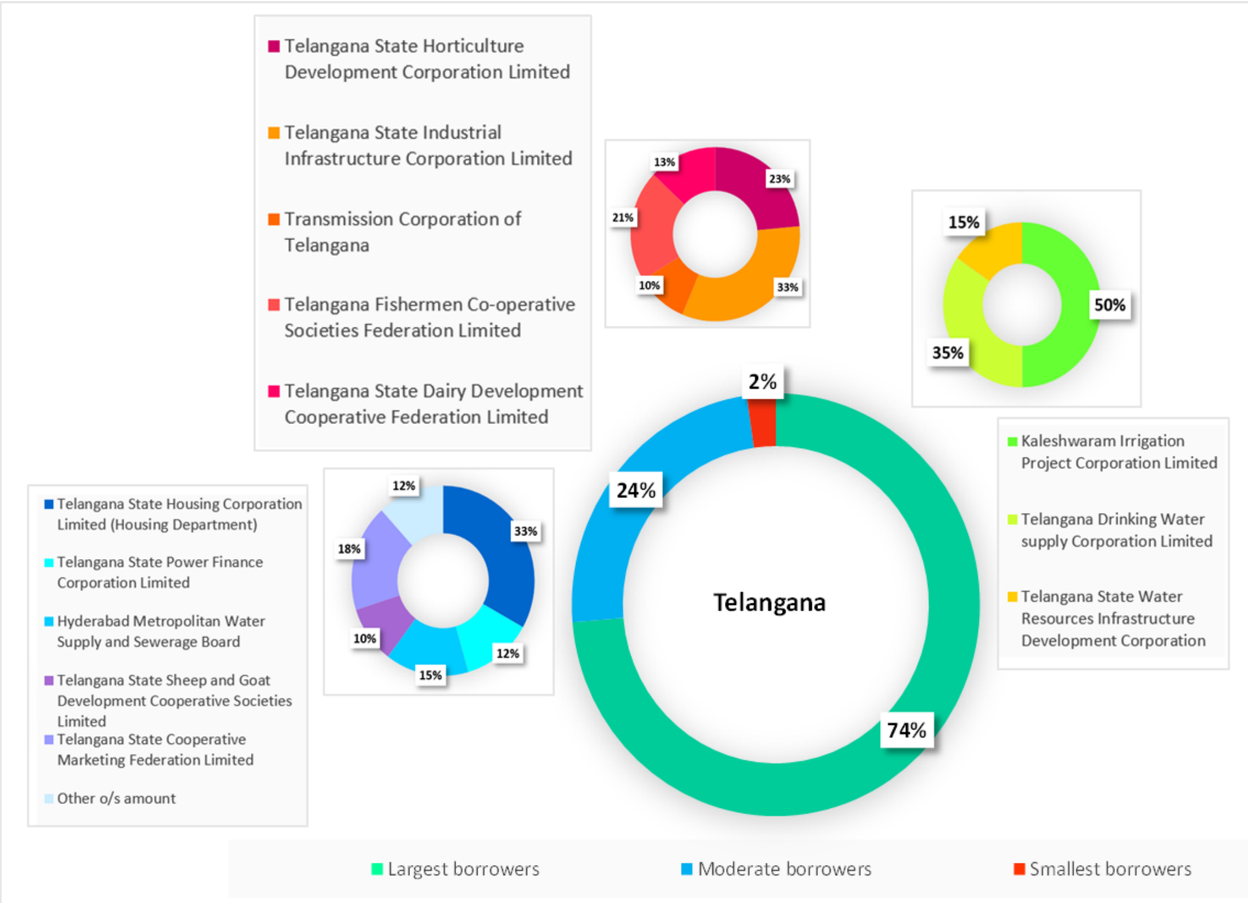
Figure 8: Utilisation of extra budgetary resources by PSUs as on 31.03.2021 (Rs crore)



Source: CAG State Finance Audit Report (2022)

Note: The data is based on the CAG reports for 2021 for the States. In a more recent report, the 2021 off-budget borrowing numbers have been updated for Andhra Pradesh. However, the report does not provide updated numbers of the individual off-budget borrowers. Therefore, for this figure we have used the older numbers for Andhra Pradesh.

Figure 9: Utilisation of extra budgetary resources by Telangana PSUs as on 31.03.2021 (Rs crore)



Source: CAG Telangana State Audit Report (2022)

(iii) Other Insights

Interestingly, there are certain states with very high on-budget debts, which are already in breach of their FRL debt targets, and still resorting to low degrees of off-budget borrowing. This is curious, given that one of the reasons why states resort to off-budget borrowing in the first place is to bypass their FRL targets. The three examples in this regard are Punjab, Rajasthan, and

West Bengal. RBI's risk analysis of state finances places them among the states with the highest debt-to-GSDP ratios, 49.1%, 40.5%, and 37.1% respectively (RBI, 2022).

While Punjab's debt-to-GSDP FRL targets have not been revised for quite a few years now[16], Rajasthan missed the target of bringing its ratio down to 34% by the end of 2020. Punjab's off-budget borrowings stood at 1.95% of GSDP, and Rajasthan's was even lower with just 0.5% since 2016.

At the end of 2021, West Bengal's off-budget liabilities were Rs. 3016.64 crore, merely 0.23% of the GSDP (RBI, 2021a). The motivation behind these States opting for off-budget resources with very little pressure on the existing debt, when already in violation of their FRL targets, is unclear. One plausible explanation is that their off-budget numbers are much higher than are currently being projected.

Rajasthan has spent off-budget borrowings primarily on Zila Parishads and Rajasthan Agriculture Marketing Board. Other than that, money has been borrowed for Rural Housing and Infrastructure Development, Civil Supplies Corporation, and Water & Sanitation Pooled Fund.

Punjab, whose off-budget debt was Rs 10,550.62 crore at the end of 2021, had the state power corporation and the civil supplies corporation as largest borrowers. West Bengal borrowed off-budget sums for Women Development Undertaking and State Seed Corporation Limited, besides other small enterprises.

V. Analysing the legal gaps in the regulation of off-budget borrowings

As with many other data gaps, the problem of off-budget borrowing also has a legal dimension. As discussed previously, India lacks a comprehensive PFM law that could standardise and integrate its fiscal reporting. This enables governments to resort to off-budget borrowing, and thereby circumvent the debt limits contained in the FRLs that they are bound to follow.

To address this, in 2018, the Union FRBM Act was amended to widen its definition of debt and include financial liabilities of government-owned or -controlled entities that the Union government was responsible to repay (FRBM Act, 2003, S. 2(aa)). This amendment resulted in better reporting of the Union's off-budget numbers, as discussed above.

However, this still leaves scope for the Union to take new off-budget borrowings to pay back the existing debt. The Union can thus stay within its debt target, and since the repayment in such cases is not being done through the CFI (for the time being), it does not reflect in the fiscal deficit indicator either. In this section, we take a closer look at how state FRLs regulate off-budget borrowing, if at all.

A) How are off-budget borrowings regulated?

Remarkably, we find that state fiscal rules are in fact quite detailed and extensive in their measures to address off-budget borrowing. Table 1 below shows that state FRLs and rules contain a variety of measures, such as including off-budget borrowings in the definition of government debt or liabilities, taking it into account for calculating fiscal and revenue deficits, and requiring it to be reported as part of the Fiscal Policy Strategy Statement or Medium-Term Fiscal Policy Statement, which are tabled in the legislature along with the budget.[17]

Seven states expressly define off-budget borrowings, and only one state—Madhya Pradesh—has no direct or indirect reference to this practice. Therefore, it is not as though state fiscal rules do not envisage, acknowledge, or seek to address off-budget borrowings. On the contrary, they are extensively detailed and varied in their attempts to regulate it.

Table 1: How different FRLs regulate off-budget borrowing

Sr. No.	**How off-budget borrowing is regulated**		**Followed by**
1.	Included in definition of debt / total liabilities		Union, Haryana,[18] Chhattisgarh, Meghalaya, Nagaland, Tripura, West Bengal, Bihar, Maharashtra, Andhra Pradesh, Telangana
2.	Separately requires off-budget borrowing to be reflected as government borrowing[19]		Manipur, Nagaland, Tripura, Bihar, Andhra Pradesh, Haryana, Telangana
3.	Interest on off-budget borrowing to be considered as revenue expenditure for calculating revenue deficit		Arunachal Pradesh, Assam, Bihar, Maharashtra, Karnataka
4.	Considered as government borrowings for calculating fiscal deficit		Punjab, Arunachal Pradesh, Assam, Himachal Pradesh, Maharashtra, Karnataka
5.	Expressly defined		Punjab,[20] Odisha, Jharkhand, Maharashtra,[21] Karnataka,[22] West Bengal, Arunachal Pradesh
6.	Included in Fiscal Policy Strategy Statement		Andhra Pradesh, Telangana, Gujarat, Meghalaya, Nagaland, Tripura, Bihar, Sikkim, Mizoram, Chhattisgarh, Haryana, West Bengal
7.	Included in Medium-Term Fiscal Policy Statement		Karnataka, Punjab, Arunachal Pradesh, Odisha, Goa
8.	Included in Fiscal Transparency Statement		Gujarat, Kerala, Arunachal Pradesh, Himachal Pradesh, Uttarakhand, Uttar Pradesh, West Bengal, Karnataka
9.	No express regulation	Indirect reference[23]	Rajasthan,[24] Tamil Nadu, Jharkhand
		No direct or indirect reference	Madhya Pradesh

Thus, the legal gap in the subnational regulation of off-budget borrowings is not in terms of an absence of necessary legal provisions. Rather, the gap is in terms of a vertical inconsistency in Union and subnational regulation of off-budget borrowings, a horizontal inconsistency in how different states regulate it, and an inconsistency between what the laws say and what governments are actually (not) doing.

In other words, state FRLs are not being circumvented by an unforeseen issue that the law was not aware of, as was the case with the constitutional provisions on the Public Account. Rather, they are being subverted through blatant violations of a range of express provisions that seek to regulate off-budget borrowings.

B) How should off-budget borrowings be regulated?

There are thus several different ways in which off-budget borrowing is regulated across India's federal structure. The fact that there is next to no compliance, across the board, means that it is difficult to assess which types of regulation have been more effective than others. That being said, analysing the available range of regulatory options is useful for thinking about what an ideal regulatory framework should look like.

The FRLs that include off-budget borrowings in their definitions of debt or liabilities, fiscal deficit, and revenue deficit, essentially require governments to disclose aggregated numbers that consolidate on-budget and off-budget borrowings. In other words, these types of provisions do not require a specific, separate disclosure of off-budget borrowing figures, so long as off-budget numbers are added to the fiscal indicators that are disclosed. While this is certainly better than reporting numbers that do not include off-budget figures (which is what all governments are doing presently), it still does not reveal the full fiscal picture.

Another category of FRLs requires off-budget borrowings to be separately included in their fiscal statements, such as the fiscal policy strategy, the medium-term fiscal policy, and the fiscal transparency statements. In these cases, governments are required to specifically disclose off-budget borrowings, but are not required to add these figures to their main fiscal indicators, such as their debt numbers. This means that while the government's off-budget numbers are revealed in certain documents, their main fiscal indicators remain under-inclusive. This ultimately paints an incomplete picture of their fiscal affairs.

The ideal regulatory framework for off-budget borrowing should incorporate both elements: It should require off-budget numbers to be added to the major fiscal indicators, while also requiring them to be separately disclosed. Only this combination of requirements can fully address the data gap of off-budget borrowing, because it would require the disclosure of not only the true extent of government liabilities, but also its sources. Presently, the FRLs in only nine states include off-budget borrowings in both, their debt/liabilities definition as well as in one of their fiscal statements.[25]

To increase transparency even further, the requirement to separately disclose off-budget borrowing numbers may also be expanded to include details such as:

- who is borrowing (PSUs, SPVs, government, etc.), from whom, and against which scheme or project, if applicable, or for any other purpose. One example can be found in Statement 27[26] which includes the names of scheme/project under the ministry or department that administers it;
- the modality of the borrowing, whether through the Public Account, selling government bonds, market borrowings, SBAs, etc. For example, Statement 27 is divided into two parts, the first part being EBR mobilised through issue of government fully-serviced bonds, and the second part being financial support extended through loans from NSSF;
- the terms of the loan, including details such as the time period over which the debt would have to be repaid, the interest rate, etc.;
- details of repayments (with interest and principal reported separately) of specific departments under which PSEs operate;
- and estimates of future borrowings. For multi-year capital intensive projects, wherever possible, a medium-term framework of the borrowing requirements and repayment plans of the project.

Annual disclosures along these lines, presented with the budget, would enable the Legislature, markets, and citizens, to develop a thorough and comprehensive understanding of the government's fiscal health, and its prospects over the medium term. It would also ensure that if, for example, the government is repaying its existing debt by resorting to new off-budget borrowing, these details would be fully evident. The government would have to specify that the purpose of the fresh borrowing is to finance previous debt.

Existing provisions in FRLs which include off-budget borrowing in their debt definition are not able to capture such practices. Since these regimes only require a debt percentage to be reported, if there is no net change in debt as a result of fresh borrowings meeting existing liabilities, the reported debt number will remain unchanged and consistent.

As with other aspects of PFM, it is essential to have uniform debt reporting across India's federal structure.[27] If a state government hides the full extent of its debt through resorting to off-budget borrowings, it primarily puts that state at risk. However, given the highly inter-connected and integrated nature of India's federal system, with states receiving substantial resources through vertical and horizontal devolution from a common divisible pool[28] and the Union being constitutionally responsible for overall macroeconomic stability,[29] an under-reporting state has risk implications for the whole Union of States.

Moreover, under the Union FRBM Act, the Union government has to ensure that the general government debt, comprising both Union as well as all state governments' debt, does not exceed 60% of GDP (FRBM Act, 2003, S. 4(1)(b)(i)). To aggregate state (and Union) debt data, or even to simply compare them across states, it is essential that the debt is calculated and reported in the same manner in every case. This illustrates how heterogeneity in the regulation of off-budget borrowing in India constitutes a legal gap.

Hence, it is crucial that the ideal regulatory framework for off-budget borrowing, in addition to containing the features described in the preceding paragraphs, also needs to be a uniform framework. Given that the RBI already consolidates and publishes information regarding various aspects of the fiscal affairs of the Union as well as states in a uniform manner, it can play a similar role regarding uniform reporting of off-budget borrowings as well, once governments start reporting this information in their budgets. We need to develop instruments of short-run flexibility to incentivise states to move in this direction. Any additional flexibility should only be a transitional arrangement, which should be phased out in a few years once reporting off-budget numbers becomes the norm.

VI. Issues with the Union's attempt to regulate subnational off-budget borrowing

While both the Union and the states are subject to the deficit and debt limits contained in their respective FRLs, the Constitution provides the Union with another handle, via Article 293, to limit state deficit and debt. Under Article 293(3), states are required to take the Union's consent for borrowings if they are indebted to the latter. Since every state is indebted to the Union Government, all are required to get their borrowings approved. The Union gives its approval drawing from Finance Commission recommendations, and sets an annual borrowing limit in the form of a net borrowing ceiling (NBC), pegged to an annual fiscal deficit target. So, for instance, if a state has a fiscal deficit of 3% of GSDP, its NBC is also set at 3% of GSDP.

In March 2022, the Union decided to treat states' off-budget borrowings in 2020-21 and 2021-22 as states' own borrowings, to be adjusted against the states' NBCs in 2022-23. This would have led to a sudden, significant reduction in how much states could borrow. Following concerns expressed by states, the Union decided, in June 2022, to include off-budget borrowings in NBCs only from 2021-22, and adjust it across 2022-23 to 2025-26. While this eased the retrospective burden, the fact remains that states will effectively have lesser borrowing space going forward, given that their off-budget borrowings will also form part of the NBC.

The Union's move has been praised in some quarters, and has also generated severe backlash from several states. As we have argued, the best way to regulate off-budget borrowings is to require full transparency, entailing both separately disclosing off-budget figures as well as adding them to the major fiscal indicators. But to operationalise its decision under Article 293(3), the Union has asked the states to furnish details regarding their off-budget borrowings to the Union itself, and not to release these numbers transparently in the public domain. The Union, now presumably is in possession of a vast dataset of off-budget borrowings of all states, has also chosen to keep these numbers to itself.

This means that state legislatures, markets, citizens, and researchers remain in the dark regarding off-budget borrowings. Each of these entities have a legitimate and important role to play in analysing and regulating subnational public debt. But by keeping the numbers to itself, the Union risks building a centralised, exclusively vertical, and non-transparent channel of fiscal accountability, instead of advancing the constitutional principle of legislative supremacy over fiscal affairs. In short, despite the Union's intervention, the data gap of subnational off-budget borrowing still remains a data gap.

Moreover, while both FRL limits as well as the NBC limit that is vertically imposed on states through Article 293(3) are numerical in nature, the latter is a hard limit, allowing for no exceptions or explanations. If a state breaches its NBC, then consent for fresh borrowings is withheld. Given the larger subnational fiscal landscape, characterised by pandemic-related fiscal stress and pending GST dues among other constraints, this sudden hard limit might foreseeably result in spending cuts in critical areas, such as capital expenditure and social sector spending.

At least in the case of FRLs, the inherent rigidity in such numerical-based limits is partially balanced by soft compliance measures that allow for some flexibility. For example, most FRLs allow certain grounds for exceeding the fiscal deficit target to an extent, provided that the government tables a statement in the legislature justifying the reasons for the deviation and the path back to compliance. But when a numerical fiscal deficit target is imposed from above in an absolute manner, as the Union does to states via Article 293(3), there is simply no scope for flexibility. This approach can disincentivise states from investing in capital expenditure and human capital.

VII. Addressing off-budget borrowings: Way forward

Data gaps are an entrenched issue in India, with far-reaching consequences for fiscal policy, economic growth, and human capital. The problem of off-budget borrowings, at Union and state levels, serves as an illuminating example of data gaps and illustrates some of the motives, contexts, extents, and consequences that animate and emerge from data gaps.

Data gaps also tend to have an underlying context of legal and institutional gaps. The FFC (2020) had a detailed chapter on reforming India's fiscal architecture, comprising the three pillars of PFM processes, fiscal rules, and independent fiscal institutions. A long-term solution to the problem of off-budget borrowing, and data gaps more generally, necessarily requires reforms across each of these pillars that can improve the coverage, timeliness, quality, and integrity of fiscal reporting.

While there are detailed rules, guidelines, and manuals for various aspects of PFM, and an overarching PFM structure in the Constitution, a comprehensive statute that can tie these two together remains conspicuously absent. Not only does this reflect a literal gap, it also leads to salient constitutional and democratic principles being violated. This gap needs to be bridged, and a holistic, comprehensive manner in which this can be done is through passing a consolidated PFM law that can apply to the Union and the States (James, Patel, and Singh, 2022).

Such a PFM law could cover several areas in need of reform, including fiscal responsibility, the annual budget, financial management, reporting and accounting, and legislative and executive oversight (Alamuru & Vidhi Centre for Legal Policy, 2020). Without "*Ensuring uniformity in the definition of fiscal indicators and the standard reporting framework of the Union and States*", as the FFC (2020, p. 393) recommended, data gaps will only continue. This kind of uniformity can be ensured if it is mandated through an overarching law that fills the various existing PFM gaps that the FFC (2020) highlighted in its report, and will help in filling the data gap of off-budget borrowings as well.

In the case of India's fiscal rules, the legal gaps are more in the nature of vertical and horizontal inconsistencies in how debt generally, and off-budget borrowing specifically, is regulated across India's federal structure. Gaps in the legal framework are accompanied by vast gaps between the law and its compliance, altogether resulting in off-budget borrowings continuing unreported and unabated. For ensuring that off-budget borrowings are transparently reported, the law should require separate disclosures of off-budget borrowings, along with requiring those figures to be added to the major fiscal indicators. Institutionally, India also lacks a fiscal council that could have anchored, collated, and coordinated its fiscal reporting.

While a long-term solution requires reforms as detailed above, a lot can be done in the immediate, transitional phase as well. In theory, there is nothing stopping the Union from using its powers under Article 293 to require states to transparently report their off-budget operations. While the Union has attempted to regulate subnational off-budget borrowing through its circulars in March and June 2022, the fact that it has done so in a non-transparent manner means that the crux of the problem remains unaddressed.

Reportedly, the Comptroller and Auditor General (CAG) is planning to publish fiscal sustainability report cards for each state, which would capture their off-budget liabilities too (Sahu, 2022). If these plans go ahead, it may prove to be a very useful resource that can help fill this data gap. Ultimately, the true extent of this problem can only be comprehended with more numbers. But even the limited numbers that have been studied in this paper paint a very concerning picture, and points to the need for urgent intervention at all levels of government, and across the fiscal architecture.

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Annex

Table A1: Select gaps and inconsistencies in the existing PFM framework

PFM dimension	Present coverage	Existing gaps / inconsistencies	Existing gaps in implementation
Fiscal discipline and risk management	Existing FRLs, at the Union and state levels, cover a lot of ground in terms of numerical fiscal targets, mandatory disclosures, escape clauses, etc.	**Union FRL**: definitions of deficit and debt are inconsistent with each other. General government debt target is not consistent with wider definition of 'Central Government Debt.' **State FRLs:** Many states have not adopted a wider definition of debt and deficit that could cover extra-budgetary operations. Many state FRLs do not have debt as an anchor. Even where debt is a target anchor, it is not defined in alignment with the general government debt target adopted by the Union FRL.	Union government debt is not calculated in full cognisance of the revised definition of debt (post-2018) in the Union FRL. Medium-Term Expenditure Framework and Fiscal Risk Statement are not published by the Union or states
Budget formulation	Constitutional provisions under Articles 112–117 cover budgetary process in the Parliament, and Articles 202–207 do the same for state legislatures. GFR, Delegation of Financial Powers Rules, and Union and state budget manuals cover rules governing appropriations, sanctions, and allocations.	Constitution covers only broad mandate and provides a basic framework. However, downstream operational budgetary processes have no specific legal framework governing them. Documentation requirements and timelines for budget-making are not legally defined.	Budgetary processes are not oriented towards performance budgeting or outcome budgeting. Outcome budget document is prepared in a manner that is de-linked to the main budget outlay and performance.
Public procurement	GFR, 2017, R&P rules, and various orders issued by the Department of Expenditure, MoF, GoI, and finance departments in state governments	No overarching legal framework for public procurement. Fragmented rules, guidelines, and manuals make it difficult for public agencies to follow them comprehensively	Rules hamper efficient procurement rather than aiding competitive, transparent and efficient public procurement.
Monitoring and reporting	Ex-post review and audit by C&AG under Article151 and C&AG (DPC) Act	**Both in Union and states:** External assessment and evaluation mechanism for fiscal plans, performance and government's macro-economic and fiscal forecasts not in place. There is no provision or mechanism for mid-term review or correction of expenditure plan.	Ad hoc mechanism for year-end expenditure review (at the revised estimates stage), and only when driven by a pressing need. Year-end expenditure cuts are not effective, as payments get postponed to next financial year.

Table A2: Statement 27 – Statement of Extra Budgetary Resources (EBRs) – Govt. Fully Serviced Bonds

Name of the Ministry/Department and Name of the Scheme	2016-17 Actuals	2017-18 Actuals	2018-19 Actuals	2019-20 Actuals	2020-21 Actuals	2021-22 BE	2021-22 RE	2022-23 BE
Part A -EBRs mobilised through issue of Govt. fully serviced bonds								
Department of Civil Aviation Air India Asset Holding Limited (AIAHL)				7,000				
Department of Higher Education Revitalising Infrastructure and Systems in Education (RISE)	---	---	---	---	---			
Department of Health & Family Welfare Pradhan Mantri Swasthya Suraksha Yojana	---	---	---	---	---			
Ministry of Housing & Urban Affairs Pradhan Mantri Awas Yojana (PMAY) - Urban	---	---	20,000	---	---			
Department of Water Resources, River Development & Ganga Rejuvenation								
(i) Polavaram Irrigation Project	---	---	1,400	1,850	2,243		751.80	
(ii) Pradhan Mantri Krishi Sinchai Yojana (Accelerated Irrigation Benefits Programme & other Projects)	2,187	3,105	5,493	1,963	1,922			
Department of Drinking Water &Sanitation								
(i) Swachh Bharat Mission (Rural)	---	---	8,698	3,600	----	NIL		NIL
(ii) Jal Jeevan Mission / National Rural Drinking Water Programme	---	---	---	---	---			
Ministry of New & Renewable Energy								
(i) Grid Interactive Renewable Power, Off-Grid/ Distributed & Decentralized Renewable Power	1,640	---	---	---	---			
(ii) Pradhan Mantri-Kisan Urja Sanrakshan Evam Utthan Mahabhiyan (PM-KUSUM)	---	---	---	---	---			
Ministry of Ports, Shipping and Waterways Inland Waterways Authority of India (IWAI) Projects	340	660	---	----	---			
Ministry of Power								
(i) Deen Dayal Upadhyaya Gram Jyoti Yojana/SAUBHAGYA	5,000	4,000	13,827	3,782	2,500			
(ii) Power System Development Fund Projects	---		5,505	---	---			
Ministry of Railways			5,200	5,000				
Department of Rural Development Pradhan Mantri Awas Yojana (PMAY)- Rural	---	7,330	10,679	10,811	20,000			
Total (Part A)	**9,167**	**15,095**	**70,802**	**34,006**	**26,665**	**0**	**751.80**	**0.00**
Part B - Financial support extended through loans from NSSF								
Department of Food & Public Distribution Food Corporation of India	70,000	65,000	97,000	1,10,000	84,636			
Ministry of Housing & Urban Affairs Building Materials & Technology Promotion Council		8,000		15,000	10,000			
Department of Fertilizers Metals & Minerals Trading Corporation				1,310			NIL	NIL
Support to other public agencies (to meet requirement for additional resources, if any, under some specific scheme/project)						30,000		
Total (Part B)	**70,000**	**73,000**	**97,000**	**1,26,310**	**94,636**	**30,000**		
Grand Total (Part A + Part B)	**79,167**	**88,095**	**1,67,802**	**1,60,316**	**1,21,301**	**30,000**	**751.80**	**0.00**

Note: Entries highlighted in blue were not a present in the original Statement 27 table, but were added from the notes below it. Calculation may vary accordingly.

Table A3: Statement 27 after CAG audits (in Rs. crore)

EBR Resource Utilisation as on 31.03.20XX					
	31.03.2017	31.03.2018	31.03.2019	31.03.2020	31.03.2021
Part-A – EBRs mobilised through issue of Govt. fully serviced bonds	**31.03.2017**	**31.03.2018**	**31.03.2019**	**31.03.2020**	**31.03.2021**
Air India Asset Holding Limited (AIAHL)				21,985	
Pradhan Mantri Awas Yojana (PMAY) - Urban			20,000		
Department of Rural Development - PMAY (Rural)		7,329	10,679	10,811	20,000
Pradhan Mantri Ujjwal Yojana (PMUY)		673	2,688		
Department of Water Resources, River Development & Ganga Rejuvenation		14,466	15,202	3,813	4,165
Long Term Irrigation Fund	9,086	20,447	34,249		
Department of Drinking Water & Sanitation-Swachh Bharat Mission Rural			8,698	3,600	
Food Corporation of India (Non-NSSF)	81,303	1,24,879	90,180		
Fertiliser Subsidy	39,057	26,183	32,489	43,483	
Ministry of New & Renewable Energy - Grid Interactive Renewable Power, Off-Grid/ Distributed & Decentralized Renewable Power	1,640				
Ministry of Ports, Shipping and Waterways - Inland Waterways Authority of India (IWAI) Projects	340	660			
Ministry of Power - Deen Dayal Upadhyaya Gram Jyoti Yojana/SAUBHAGYA & Power Systems Development Fund	5,000	9,000	28,332	32,114	34,614
Power Finance Corporation	2,02,588				
MoR - Indian Railway Finance Corporation (IRFC)	1,02,480	1,42,882	1,79,133	2,20,533	2,71,084
MoR - Rail Vikas Nigam Limited (RVNL)				1,408	
Ministry of Road Transport -National Highway Authority of India (NHAI)		1,22,524	1,79,438	2,23,093	
Total	4,41,494	4,69,043	6,01,087	5,60,840	3,29,862
Part-B – Financial support extended through loans from NSSF					
Food Corporation of India	70,000	1,21,000	1,91,000	1,10,000	84,636
PMAY (Urban)		8,000		16,310	10,000
Total	70,000	1,29,000	1,91,000	1,26,310	94,636
Part C - Special Banking Arrangements (SBA)					
DEA expenditure on fertilizer subsidy		7,000	10,000		
Int. on Fertiliser Subsidy Liability	81				
Total	81	7,000	10,000		
Total EBR	5,11,575	6,05,043	8,02,087	6,87,150	4,24,498

Table A4: Internal and External Budgetary Resource (IEBR) allocation to ministries (Rs. crore)

Ministry wise IEBR expenditure	Budget	Actuals					
Ministry	**2023-24**	**2022-23**	**2020-21**	**2019-20**	**2018-19**	**2017-18**	**2016-17**
Ministry of Agriculture and Farmers Welfare	2.87	2.37	5.11	0	0	0	0
Department of Atomic Energy	13059.12	9110.3	6614.46	6980.1	7325.93	6588.49	6442.51
Ministry of Chemicals and Fertilisers	146.5	25.26	455.52	1525.15	1341.02	783.27	1764.58
Ministry of Civil Aviation	3448.21	0	0	0	4883.4	7134.46	2544.31
Ministry of Coal	21030.01	19656.42	17474.95	14871.07	15749.31	15917.37	14289.29
Ministry of Commerce and Industry	162	96.25	0	0	0	1385.81	2585.85
Ministry of Communications	6637.94	7245.56	8547.6	7678.99	8806.94	11849.19	2821.56
Ministry of Consumer Affairs, Food and Public Distribution	145380	61163.96	56912.35	177831.59	165029.79	211188.42	105.62
Ministry of Defence	3100	2857.25	2768.43	31991.02	605	20.99	0
Ministry of Development of North Eastern Region	1.5	1.28	0.08	0	0	1.09	0
Ministry of Education	0	37.48	30.5	0	0	0	0
Ministry of Electronics and Information Technology			0	0	0	0	0
Ministry of Health and Family Welfare	51.8	523.88	159.54	0	0	0	0
Ministry of Heavy Industries	281.79	274.38	223.11	401.03	341.24	296.52	332.25
Ministry of Housing and Urban Affairs	16962.88	9972.51	10292.77	38464.2	33395.33	18921.25	13860.22
Ministry of Human Resource Development			0	0	0	0	0
Ministry of Information and Broadcasting	356.24	215.53	123.59	191.85	193.74	123.25	111.13
Ministry of Jal Shakti	2	0	4171.82	3895.77	15667.14	3105	0
Ministry of Micro, Small and Medium Enterprises	260	0	110.28	97.57	0	74.87	69.51
Ministry of Mines	2183.92	1944.63	1403.55	1350.08	4753.27	1715.93	1307.09
Ministry of Minority Affairs	886	752.61	0	509.59	0	0	0
Ministry of New and Renewable Energy	37828.15	15880.59	9505.56	10450.85	10459.15	10491.27	8640.81
Ministry of Petroleum and Natural Gas	106400.7	106686.16	111194.38	105602.8	100308.7	132003.88	104426.04
Ministry of Ports, Shipping and Waterways	3633.21	3164.61	2652.48	2934.06	3950.54	4165.54	2721.95
Ministry of Power	60805.22	48135.05	47265.02	62635.92	74013.56	59447.01	0
Ministry of Railways	52783	73388.13	125255.33	80165.53	80538.99	58567.92	64703.24
Ministry of Road Transport & Highways	0	65150	65035	74988	61217	50532.41	33117.74
Ministry of Rural Development			0	10811.02	10678.8	7329.43	0
Ministry of Science and Technology	33	58.2	37.04	46.26	0	0	0
Ministry of Shipping			0	0	105.8	96.77	90.46
Ministry of Social Justice and Empowerment	194.58	159.11	144.35	0	0	0	0
Ministry of Steel	10300.85	10147.33	7266.7	8131.76	8591.28	8946.6	11881.56
Ministry of Tourism			0	0	0	0	0
Ministry of Water Resources, River Development and Ganga Rejuvenation			0	0	0	0	2187
Total	**485931.49**	**436648.85**	**477649.52**	**641554.21**	**607955.93**	**610686.74**	**274002.72**

Table A5: IEBR spending by Union government (example data)

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	Budget Support	IEBR	Total	Budget Support	IEBR	Total	Budget Support	IEBR	Total	Budget Support	IEBR	Total
C. Investment in Public Enterprises												
Loans to Credit Cooperatives												
2. Central Warehousing Corporation	...	255.29	255.29	...	205.33	205.33	...	205.68	205.68	...	225.16	225.16
3. Central Railside Warehouse Company Ltd	...	20.78	20.78	...	40.00	40.00	...	12.00	12.00	...	22.20	22.20
Total-Loans to Credit Cooperatives	**...**	**276.07**	**276.07**	**...**	**245.33**	**245.33**	**...**	**217.68**	**217.68**	**...**	**247.36**	**247.36**
Food Corporation of India												
1. Food Corporation of India	1040.00	56636.28	57676.28	2555.21	102495.00	105050.21	2510.00	88995.00	91505.00	1930.00	87495.00	89425.00
Total-Food Corporation of India	**1040.00**	**56636.28**	**57676.28**	**2555.21**	**102495.00**	**105050.20**	**2510.00**	**88995.00**	**91505.00**	**1930.00**	**87495.00**	**89425.00**
Total	**1040.00**	**56912.35**	**57952.35**	**2555.21**	**102740.33**	**105295.54**	**2510.00**	**89212.68**	**91722.68**	**1930.00**	**87742.36**	**89672.36**

Table A6: Extra budgetary utilisation by states

State wise off-budget borrowings utilisation in FY 20XX (Rs crore)							
State/Year	2016	2017	2018	2019	2020	2021	2022
Chhattisgarh	1955	631.17	801.35	694.26	325		
Goa				919.21			
Gujarat			0	0.00	0	0	0
Himachal Pradesh					0	0	0
Jharkhand					0	0	
Nagaland			0	0	0	0	0
Rajasthan	160.52	61.34	6.34	1.15	764.12	50.41	
Sikkim	0	0		504.4	245.6	278.64	
Telangana	3719				16077.04		
Uttar Pradesh						1637	
West Bengal						4311.79	

Note: The blanks indicate unavailability of the data

Table A7: List of Fiscal Responsibility Laws

Region	Fiscal responsibility law
Union	Fiscal Responsibility and Budget Management Act, 2003
Andhra Pradesh	Andhra Pradesh Fiscal Responsibility and Budget Management Act, 2005
Arunachal Pradesh	Arunachal Pradesh Fiscal Responsibility and Budget Management Act, 2006
Assam	Assam Fiscal Responsibility and Budget Management Act, 2005
Bihar	Bihar Fiscal Responsibility and Budget Management Act, 2006
Chhattisgarh	Chhattisgarh Fiscal Responsibility and Budget Management Act, 2005
Goa	Goa Fiscal Responsibility and Budget Management Act, 2006
Gujarat	Gujarat Fiscal Responsibility Act, 2005
Haryana	Haryana Fiscal Responsibility and Budget Management Act, 2005
Himachal Pradesh	Himachal Pradesh Fiscal Responsibility and Budget Management Act, 2005
Jharkhand	Jharkhand Fiscal Responsibility and Budget Management Act, 2007
Karnataka	Karnataka Fiscal Responsibility Act, 2002
Kerala	Kerala Fiscal Responsibility Act, 2003
Madhya Pradesh	Madhya Pradesh Fiscal Responsibility and Budget Management Act, 2005
Maharashtra	Maharashtra Fiscal Responsibility and Budgetary Management Act, 2005
Manipur	Manipur Fiscal Responsibility and Budget Management Act, 2005
Meghalaya	Meghalaya Fiscal Responsibility and Budget Management Act, 2006
Mizoram	Mizoram Fiscal Responsibility and Budget Management Act, 2006
Nagaland	Nagaland Fiscal Responsibility and Budget Management Act, 2005
Odisha	Orissa Fiscal Responsibility and Budget Management Act, 2005
Punjab	Punjab Fiscal Responsibility and Budget Management Act, 2003
Rajasthan	Rajasthan Fiscal Responsibility and Budget Management Act, 2005
Sikkim	Sikkim Fiscal Responsibility and Budget Management Act, 2010
Tamil Nadu	Tamil Nadu Fiscal Responsibility Act, 2003
Telangana	Telangana Fiscal Responsibility and Budget Management Act, 2005
Tripura	Tripura Fiscal Responsibility and Budget Management Act, 2005
Uttar Pradesh	Uttar Pradesh Fiscal Responsibility and Budget Management Act, 2004
Uttarakhand	Uttaranchal Fiscal Responsibility and Budget Management Act, 2005
West Bengal	West Bengal Fiscal Responsibility and Budget Management Act, 2010

Notes

[1]See table A1 in the Annex; PFM broadly refers to how governments manage public resources, and covers "a set of systems aimed at producing information, processes, and rules that support fiscal policymaking" (Andrews et al, 2014; Cangiano, Curristine, and Lazare, 2013).

[2] CAG audits of government accounts often takes more than a year after the accounts are published.

[3]CAG reports discrepancy in figures of State Finance Accounts of West Bengal and the financial statements of State Public Sector Enterprises (SPSEs). Difference in equity figures of 64 SPSEs to the extent of Rs. 384 crore and loan amounts of 53 SPSEs of Rs. 1,158 crore was found.

[4] As per CAG, very often, States misclassify revenue expenditure as capital expenditure. Uttar Pradesh, for example, understated revenue deficit by Rs. 86.57 crore in 2020-21 by misclassifying maintenance of vehicles, purchase of petrol, legal/consultancy fees, minor construction works, and computer purchase as capital expenditure, instead of revenue expenditure. Capital expenditure of purchase of vehicle was misclassified as revenue expenditure.

[5] For example, different States define debt differently in their Fiscal Responsibility Legislations (FRLs), which makes it difficult to compare reported debt figures across States.

[6] The DGI was launched to address the gaps that had been identified by the IMF & FSB (2009). It has now completed two phases (DGI-1 & DGI-2),

[7] Two illustrative examples of such misclassification are: (i) The Union classifying grants-in-aid disbursed to States under Article 275 (as per Finance Commission recommendations) as capital expenditure, despite the relevant Indian Government Accounting Standard (IGAS 2, on Accounting and Classification of Grants-in-aid) requiring them to be accounted as revenue expenditure (Ministry of Finance, 2011, para 9); (ii) classifying expenditure on routine maintenance of assets as capital expenditure, despite the Government Accounting Rules clearly specifying that the criteria for classifying an expenditure as capital expenditure is that it should be incurred for increasing concrete assets of a material or permanent character (Government Accounting Rules, 1990, rule 30(1)).

[8] One such case is explained in Box 1.

[9] See Table A2 in the Annex.

[10] See Table A3 in the Annex.

[11] The reply was offered by the Ministry of Finance to CAG in the context of non-disclosure of NHAI off-budget borrowings.

[12] Based on the SBEs of all the ministries, we have compiled the total extra budgetary spending of the central government from 2016 to 2021. Table A4 in the Annex shows the details of IEBR allocation from 2016 to 2021.

[13] See Table A5 in the Annex for a snippet from the original statement.

[14] See Table A6 in the Annex for year-on-year extra budgetary debt for some States.

[15] Kerala has not updated the total liabilities target in its FRL for years after 2019-20. Telangana and Karnataka have not updated their respective targets post-2014-15.

[16] The last debt-to-GSDP FRL target of Punjab was to bring down the ratio to 40% by 2006-07.

[17] For a list of FRLs, see table A7 in the Annex.

[18] Includes a separate definition of 'special purpose vehicles', as "*an organisation or institution set up by State Government to discharge specific assignments/duties within a specified period in respect of financial transactions or raising of loans from financial institutions or the market for specific purposes against State guarantees*". (Haryana FRBM Act, 2005, S. 2(l)). Rajasthan defines it as well: "*instruments*

set up for financing of investments through borrowings not routed through the annual budget of the Government of Rajasthan". (Rajasthan FRBM Act, 2005, S. 2(n)).

[19] Typically framed as, " *Whenever the State Government undertakes to unconditionally and substantially repay the principal amount and/or interest of any separate legal entity, it has to reflect such liability as the borrowings of the State.*" (Manipur FRBM Act, 2005, S. 9(3)).

[20] "off budget borrowings" means borrowings by the State Government or its Agencies which are not reflected in the Budget. (Punjab FRBM Act, 2003, S. 2(d)).

[21]"Off-Budget Borrowings" mean non-budgetary receipts that need to be serviced by way of interest and principal repayment directly from the budget and in which the liability is not contingent in nature. (Maharashtra FRBM Rules, 2006, rule 2(h)).

[22] "Off-budget borrowings" means borrowings by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments where liability for repayment is on the State Government (Karnataka Fiscal Responsibility Rules, 2003, rule (2)(e)).

[23] Typically, either the Medium-Term Fiscal Plan or the Fiscal Policy Strategy Statement is required to include a "*... description of other activities, such as, ... activities of Public Sector Undertakings which have potential budgetary implications...*" (Tamil Nadu Fiscal Responsibility Act, 2003, S. 3(4)(c)). Since off-budget borrowing that is routed through Public Sector Undertakings has clear budgetary implications, this wording should be seen as inclusive of off-budget borrowing.

[24] Under its FRBM rules, Rajasthan requires its Fiscal Policy Strategy Statement to include sub-paragraph on 'Contingent and other liabilities', under which it is stated "*Any change in the policy related to special purpose vehicle (SPV) and other equivalent instruments where liability for repayment is on the State Government shall be indicated*" (Rajasthan FRBM rules, 2006, rule 4 read with Form F-2). While this is a direct reference to off-budget borrowings that are routed through Special Purpose Vehicles, the rules only require changes in off-budget borrowing policies to be disclosed, which falls short of a requirement to disclose all details pertaining to off-budget borrowing.

[25] These States are Haryana, Chhattisgarh, Meghalaya, Nagaland, Tripura, West Bengal, Bihar, Andhra Pradesh, and Telangana.

[26] See Table A2 in the Annex for Statement 27.

[27] This is constitutionally permissible because, even though public debt of the State forms part of the State List, an overarching central PFM law that mandates a uniform debt reporting structure across States would represent more of a procedural requirement, with States remaining free to make substantive decisions regarding their debt (like setting their own debt target under their respective FRL). In other words, a centrally mandated uniform debt reporting requirement would be about *how to* report debt (a procedural aspect), rather than *how much* debt can be undertaken (a substantive aspect).

[28] As per Finance Commission recommendations (India Const. arts. 270 & 280).

[29] This is implied by the power conferred by the Constitution upon the Union to regulate subnational borrowings under Article 293.