

## **CHAPTER 10**

### **LOANS, ADVANCES, GRANTS-IN-AID, GUARANTEES AND INVESTMENTS**

#### **10.1 GENERAL**

**10.1.1** Sanctions for loans and grants-in-aid are issued by Ministries / Departments in accordance with the guidelines provided in Chapters 9 and 11 of the General Financial Rules, while advances to Government servants are granted in accordance with the Compendium of Rules on Advances in GFR 2005. Government sanctions some loans and advances under special laws, for special reasons or as a matter of recognized policy.

**10.1.2** General guidelines and instructions on the interest rates to be charged, period of repayment to be fixed for loans to different parties, and for various purposes in respect of public sector projects in particular, etc. are contained in Ministry of Finance (Budget Division) O.M. No. F.14 (17)-B(SE)/79 dated 28-6-1980 as amended from time to time. (Annexure 'A' to this Chapter). The Accounts Offices shall keep these provisions in view while scrutinizing the sanctions for loans.

(i). In the case of loans, the detailed accounts are required to be maintained by the Pay and Accounts Office. It will be responsible to see that the conditions of repayment are complied with by the organizations that have been given loans. The PAO shall also exercise a close watch on the repayment of instalments of principal and recovery of interest against it.

(ii). In the case of loans to Public Sector Undertakings, statutory bodies, institutions etc. other than State / U.T. Governments, the Accounts Officer maintaining the detailed account shall issue notices one month in advance of the due date of repayment. This has been provided vide clause (viii) to Rule 220 (1) of General Financial Rules, 2005.

(iii). Any default in the payment of principal or interest by the organizations/individuals who have received loans/advances should be reported immediately to the authority which had sanctioned it. If the sanctioning authority enforces any penal interest on the overdue principal and interest amounts, it shall be the duty of the Pay and Accounts Office to watch their recovery.

#### **10.2 CLASSIFICATION**

**10.2.1** Loans to State governments are debited to the major head "7601-Loans and Advances to State Governments" and are treated as 'charged' items of expenditure. Other loans are debited to the concerned heads between "6202-Loans for Education, Sports, Art and Culture to 7605-Advances to Foreign Governments", and also "7615-Miscellaneous Loans", as found suitable for the purpose. These heads are used only for loans and not for advances to Government servants, which are debited to the major head "7610-Loans to Government servants etc".

#### **10.3 PROCEDURE FOR PAYMENT OF LOANS AND ADVANCES SANCTIONED BY CENTRAL GOVERNMENT**

**10.3.1** The detailed procedure to be followed for the payment of loans and grants-in-aid to State

Governments and Union Territory Governments and Administrations are dealt with in Paras 8.18.1 to 8.18.9 and 8.21 of Chapter 8.

**10.3.2** Payment of loans and advances to parties other than State/U.T. Governments and Administrations shall be made by the drawing officers of the Ministries/departments sanctioning payment of loans and advances. The drawing officer shall present a bill on a simple receipt in a form similar to form GAR-34, supported by a copy of the sanction for such payment to the Pay and Accounts Office concerned. After due verification, the PAO shall record a certificate on the bill indicating that the conditions specified in the sanction have been satisfied and/or that a formal undertaking/agreement has been obtained from the loanee concerned. The Pay and Accounts Office will forward a crossed cheque to the drawing officer drawn in favour of the party concerned. DDO will deliver the cheque to the loanee and obtain his acquittance, duly stamped wherever necessary, and pass it on to the P.A.O

[Authority:-Para 1 of Ministry of Finance (DEA) O.M. No. F.10(41)-B/64 dated 12-5-1970]

#### **10.4 PROCEDURE FOR REPAYMENT OF THE LOANS AND ADVANCES AND INTEREST THEREON**

**10.4.1** Paras 8.18.2, 8.18.9 and 8.21.2 of Chapter 8 deal with the procedure to be followed for repayment of loans and payment of interest by State Governments and U.T. Governments.

**10.4.2** The procedure indicated below shall be followed for the repayment of principal as well as interest payment on the loans and advances referred to in para 10.3.2 by the borrowers. Such borrowers include Public Sector Units, Statutory bodies, Institutions, Societies, Private Sector concerns and other individuals etc.

(a) The payment of interest and principal on the loans shall be made on or before the due date. To ensure that Government gets credit by the due date, the cheque/draft should be deposited sufficiently in advance with the bank to enable its clearance on or before the due date. The cheque/draft should be deposited with the specified New Delhi main branch of the accredited Bank to the Ministry/Department that sanctioned the loan, or its successor in whose books the accounts of the loans in question are maintained.

(b) The payment shall be made in cash or by cheque/draft drawn on the scheduled bank in Delhi/New Delhi in favour of the accredited bank branch mentioned in sub-para (a) above). The payment will be accompanied by a memorandum or challan in duplicate, giving the following details:

- i. Name of the loan sanctioning Ministry/Department or its successor as the case may be;
- ii. Number and date of sanction letter with the loan amount sanctioned;
- iii. Amount due for payment, separately for interest and principal and the head(s) of account to which the dues are to be credited in the Government account. Separate cheques/drafts and challans should be submitted for payment of principal and interest; and
- iv. Due date for payment.

(c) Outstation organizations may similarly arrange for payment of dues on account of loans through their bank, to the accredited bank branch at New Delhi of the Ministry/Department. The payment should be made along with memorandum/challan in duplicate, and ensured to be tendered at the accredited bank branch by the due date; and

(d) The accredited bank branch will initially acknowledge the receipt of cheque/draft tendered in payment of dues through a paper token. After the realisation of cheque or draft, duplicate copy of the challan will be given to the depositor.

The accredited bank collecting the dues will arrange for its prompt credit to Central Government account and send details to the Pay and Accounts Officer of the Ministry/Department, in accordance with the general instructions for handling receipts and payments of the Ministry/Department.

[Authority: Ministry of Finance, Department of Economic Affairs, O.M. No. F. 10(7)-B(TR)/76 dated the 21st June, 1976]

**10.4.3** The repayment of loan shall be watched in accordance with the terms of the sanction read with Rule 222 of GFRs 2005. Normally, the repayment of a loan shall begin on the day of completion of one year from the date of its drawing, and will be paid through specified number of equal annual instalments of principal. While the Government may sanction/allow suitable moratorium period for repayment of principal, no such moratorium period shall be allowed for payment of interest.

**10.4.4** Interest shall be recovered from the loanees at the rates prescribed by Government from time to time and calculated in accordance with the principle laid down in Rules 221 and 222 of GFRs 2005. Instructions issued by the Ministry of Finance (Budget Division) from time to time prescribing the rates of interest to be charged from statutory bodies, corporations etc. may also be referred to for this purpose, in case of doubt.

**10.4.5** If the due date for repayment of instalment of principal or interest on a loan falls on Sunday or any other holiday, no interest will be charged for such days, if the recovery is postponed on this account. However, if the principal or interest is payable on the 31st March of a year, and if that day happens to be a holiday, the payment should be made on the immediate preceding working day.

[Authority: Govt. of India, Ministry of Finance, O.M. No. 13(10)/W&M/62 dated 23-7-1963]

## **10.5 LOAN REGISTERS AND BROADSHEETS**

**10.5.1** The sanction orders for payment of loans should be scrutinized and the noted in a Loan Register in Form CAM 29, in the page assigned to it, under the attestation of the Accounts Officer. The details noted will comprise of the amount sanctioned, authority sanctioning the loan and the conditions of each loan. For each loan, separate pages should be allotted in the Loan Register, and their repayment along with receipt of interest amount should be noted/watched against it. Further, wherever a loan is not drawn in one lumpsum, the drawing of further instalments, should also be noted/watched there itself. It should also be seen that all the sanctions contain specific provision for levy of penal interest in the event of default in the repayment of principal and/or payment of interest on due dates, in accordance with Rule 228(2) of GFRs 2005.

**10.5.2** A major and minor head wise Broadsheet separately for debits and credits shall be maintained in Form CAM 59, to reconcile the payment and recovery of loans in each month against the accounts figures.

## **10.6 UTILISATION CERTIFICATES**

**10.6.1** In all cases where conditions have not been specifically laid down in the sanctions for loan, the Utilization Certificates are required to be furnished for (a) financial aid to public undertakings etc. to tide over a temporary financial crisis; (b) financing of their approved capital outlay and (c) State Governments and local administration of Union Territory Governments. Against all loans paid for specific purposes, or where conditions are specified in the sanction regarding the object or the time within which the loan must be spent, the receipt of Utilization Certificates shall be watched from the authority that has sanctioned the loan. Utilization certificates are not required in cases where the loans are sanctioned for (a) financial aid to public undertakings etc. to tide over a temporary financial crisis and (b) financing of their approved capital outlay. Utilization Certificate must be obtained in Form 19-B

of GFR and at such intervals as agreed between Accounts Offices and Ministry/Department.

**10.6.2** For the provisions relating to retrospective conversion of a loan given to a State or Union territory Government into grant-in-aid, Para 5.15.2 may be referred to.

## **10.7 LONG TERM ADVANCES TO GOVERNMENT SERVANTS**

**10.7.1** Long term interest-bearing advances like House Building and Motor Conveyance advance that are recoverable in not less than 60 instalments, shall be paid to Government servants only after pre-check of the bills by the concerned Pay and Accounts Office. The PAO shall keep a note of such payments and the repayments against it, in a Register in Form CAM 30 that has been prescribed for the purpose. The payments and recoveries noted in the register shall be reconciled on monthly basis with the figures compiled in the monthly accounts, and rectified in case of any discrepancies. The provisions under para 4.29.2 may be referred to for the purposes of calculation of interest.

**10.7.2** If the Central Government employees are transferred or sent on deputation from one Ministry or Department to another under the Government of India, the balances outstanding against the Government servant at the time of such transfer shall be effected by monetary settlement through category 'C' cheques as envisaged in paras 16.4.1 and 16.4.2.

When such claim is received from the PAO of the employee from where he was transferred or came on deputation, the Pay and Accounts Officer of the employee where he has gone on transfer or deputation should issue a category 'C' cheque in favour of the former PAO. The payment of such amount by the PAO where the employee has been transferred/ deputed shall be classified and booked as minus credit (and not debit) to Major/Minor Heads '7610-Loans to Govt. Servants-HBA/MCA' affording contra credit to Major/Minor Head '8670-Cheques and Bills, PAO Cheques.

**10.7.3** For All India Service Officers, the provisions of the All India Services (House Building Advances) Rules 1978, notified in D.P.A.R.'S No. 29012/1/75-AIS (II) dated 31-5-1978 are applicable. For the All India Service Officers borne on State cadre but on deputation with the Central Government, Autonomous Bodies, Public Sector Undertakings etc. owned or controlled by the Central Government, the applications for house building advance shall be processed in accordance with the rates and conditions of House Building Advance Rules of the Government of India. Such advance shall however be sanctioned only by the concerned State Government on whose cadre he is borne. The drawing and disbursing officer of the parent Government that had issued the sanction will draw the advance and make payment to the concerned officer by bank draft, through the DDO of the officer in the Central Government. The PAO of the Central Government will pass on the recoveries from pay bills (credits) against such advances to the Accountant General of the concerned State in the usual manner, on cash settlement basis.

[Authority: D.P.A.R. letter No. 14018/3/80-AIS (II) dated 4-5-1981 read with Min. of Fin. (Deptt. of Exp.) Spl. Cell O.M. No. F-4 (9)/76SC dated 11.3.1977]

Similar procedure shall be followed for the drawing and payment of other types of advances sanctioned by State Governments for their officers on deputation with the Central Government. For drawing of temporary advances and part final withdrawal from the G.P. Fund, provisions under Note below Para 6.4.2 may be referred to. For the sanction and payment of conveyance advance, Rule 15 of the Compendium of Rules on Advances along with the Explanation there under may be referred to.

## **10.8 SHORT-TERM ADVANCES TO GOVERNMENT SERVANTS**

**10.8.1** (i). Under the provisions of Rule 12 of Compendium of Rules on Advances to General Financial Rules 2005, the Heads of Offices are responsible for the recovery of advances granted under these rules, along with the recoverable interest, if any, and to ensure that the conditions

attached to each advance are fulfilled.

(ii). The Head of Office shall also maintain detailed accounts of short-term advances granted to Government servants including not only advances that are recoverable in less than 60 instalments, but also the recovery of advance of Pay/TA on Transfer, Tour Advance and Leave Travel Concession etc. Detailed procedure to be followed for the maintenance of records relating to short term advances by heads of offices and submission of periodical returns to Pay and Accounts Offices have been spelt out in Compendium of Rules on Advances in the General Financial Rules, 2005 and Annexure "A" thereof.

**10.8.2** The procedure followed by the PAOs will be as follows-

- (i). The Pay and Accounts Office shall watch for the receipt of monthly abstracts from each of his drawing and disbursing officer;
- (ii). He should check for the certificates and arithmetical accuracy, and tally the opening balance of the current month with the closing balance of the previous month in the abstract;
- (iii). He should check all accretions with the relevant vouchers for payment of advance, and recoveries effected through the establishment pay bills for the month;
- (iv). He shall make effective use of the Bill Passing cum Expenditure Control Register to conduct reconciliation of accounts figures with reference to departmental figures in the monthly abstracts, for all units of appropriation including the the minor heads "Advances for Purchase of other Conveyances", and "Other Advances"; and
- (v). If any discrepancies are detected, it should be pointed out to the concerned DDO for rectification.

**10.8.3** Payment of such advances are not required to be noted in the objection book or other records or registers maintained by the P.A.O, for watching recovery from the individuals, as provisioned vide Note below para 10.8.7.

**10.8.4** During the internal inspections of the office of drawing and disbursing officers, it shall be verified through the vouchers etc. through which advances were drawn that payment entries are made properly in the Pay and Bill Register. It shall also be checked that the recoveries are being made regularly from the concerned Government servant and the entries in the monthly abstracts of recoveries, especially those relating to 'transfers in' and 'transfers out' cases are being made correctly.

**10.8.5** Differences are likely between PAO's accounts figures under respective minor heads and the balances in the DDOs books, for persons with outstanding balances against them at the time of transfer from or to a DDO's office. Such differences should be reported through the monthly abstracts by accounting entries under columns 3 & 5 of the monthly abstracts. In the overall accounting circle of a Pr. A. O, such differences would normally be small due to the compensating effect. This happens because the Group C & D staff entitled to short-term advances are mostly transferred within the same Ministry/Department, and their accounts are managed by the Pay and Accounts Offices functioning within the same Principal Accounts Office. Instances of such transfers involving change in the Pr. A.Os are very rare and perhaps only in cases of transfer of CSSS and CSCS staff. For these reasons, inter-departmental adjustments shall not be effected to pass on credits for such outstanding advances. They shall continue to be indicated by the DDOs in the L.P.C of employees, for necessary recoveries by their counterparts within Civil Ministries/Departments.

**10.8.6** As mentioned above, minor variations may arise on account of the transfers 'in' and 'out' cases between balances indicated by DDOs as recoverable in the monthly abstracts and the accounts figures of P.A.Os/Pr. A.Os. To bring them on par with the balances in the DDOs books, the concept of 'Raising Up' or 'Lowering Down' of the account balances held in the books of Pay and Accounts Offices and Pr.A.Os has been provisioned. For this purpose, after the close of the accounts every year and by the prescribed date, each PAO should send to his Pr.A.O.-

- (a) A report indicating the figure as per account in his books on last day of the financial year under the two minor heads referred to above and the total ground balances held by all DDOs put together as on that date;

(For example, the figures on the last day of the financial year 31.3.2007 to start with, under the two minor heads and the total closing balance indicated in the abstracts of February, 2007 plus payments minus repayments in cash during March, 2007.)

(b) A certificate that the monthly abstracts for and up to February, 2007 have been checked through the process of verification of successive monthly abstracts for all the preceding months of the year as prescribed in para 10.8.2 above; and

(c) Recommendation in regard to the extent of 'proforma' correction needed.

Each Pr.A.O will similarly send the report and recommendation in respect of his entire accounting circle to the Controller General of Accounts, while submitting material for Statement No. 17 of the Finance Accounts.

**10.8.7** After this, the office of Controller General of Accounts will compare the total of accounts figures held by all Pr. Accounts offices, separately under the three heads, with the total ground balances indicated by them as held by the DDOs under them. After satisfying that the totals agree, the CGA will accord sanction to each Pr.A.O for raising or lowering the figures, as the case may be, to come to the level of total figures of ground balances held by DDOs within the accounting circle, as 'Proforma' correction. The figures in the Finance Accounts for the Union Government appearing against these two minor heads will not be affected, and it will only enable the individual Pr.A.Os/P.A.Os to up-date their accounts figures.

**Note:** - As the DDO/Head of office is responsible for watching prompt recovery or adjustment of all types of short-term advances, the PAO is not required to note details of payment of advances on tour, transfer etc. in the Objection Book.

## **10.9 GRANTS-IN-AID**

**10.9.1** Grant-in-aid can be given only to a person or a body independent of the Government. One department of the Government cannot sanction grant-in-aid to another department of the same Government. An organization set up by a Government resolution or by an executive order does not have separate legal status of its own and functions only as a limb of the Government. The Government therefore cannot give grant to such an organization.

**10.9.2** Instructions on the conditions for sanctioning grant-in-aid to public bodies, institutions etc are contained in Chapter 9 of the General Financial Rules 2005. Those provisions should be kept in view apart from the provisions in para 4.27 of this Manual, for the scrutiny of such sanctions and guidance on maintaining the relevant register(s).

**10.9.3** Grants to local bodies, institutions etc. can be divided into two categories, namely,

- a. Grants for general purposes; and
- b. Grants for specified purposes.

No conditions are attached to grants for general purposes and the lump sum amount sanctioned by Government are paid to local bodies. In such cases, the Pay and Accounts Office is not concerned with the manner of utilization of grant in aid, and therefore, utilization certificate is not required in such cases from the grantee organizations. Grants for specified purposes should on the other hand, clearly state the object for which they are sanctioned and the period within which they should be spent/utilized. Normally, grants in aid are required to be utilised within one year after the date of issue of the sanction, and therefore, the utilization certificate should also ordinarily be due after a period of 12 months from the date of sanction of the grant. A formal utilization certificate in the given format from the administrative/technical and financial point of view should be arranged to be furnished by the

administrative authority to the Pay and Accounts Office. Normally, the certificate should be based upon statements of accounts and the reports regarding performance or achievements of the grantee institutions vis-a-vis the objects and conditions of the grants.

**10.9.4** The following conditions apply for submission of utilisation certificates in respect of grants given by Central Government to State Governments:

- a. Utilisation certificates are not required where the expenditure is incurred out of the Central grants, by the State Governments directly.
- b. Where such expenditure is incurred by the State Governments through local bodies or private institutions, the State Government concerned should furnish the utilisation certificates.

**10.9.5** In respect of grants to non-government or quasi-government bodies or institutions, the assets acquired wholly or substantially out of Government grants should not be disposed off or used for purposes other than the objects of the grant, without prior sanction of the Government. The Pay and Accounts Offices have, therefore, to watch compliance with such conditions.

**10.9.6** The prescribed 'Register of Grants-in-aid' in Form CAM -28 may be used for entering payments relating to scholarships etc. and watching/noting the receipt of utilisation certificates, wherever necessary.

**10.9.7** Para 5.15.2(iv) may be referred to in connection with retrospective conversion of a grant-in-aid given to a State or Union Territory Government into a loan.

## **10.10 GUARANTEES GIVEN BY CENTRAL GOVERNMENT**

**10.10.1** Article 292 of the Constitution empowers the Union Government to give guarantees in respect of loans raised by others within such limits as may be fixed from time to time by an Act of Parliament. Such guarantees constitute contingent liability of the Government.

**10.10.2** Financial Adviser of the concerned Ministry/Department will report all cases of outstanding guarantees at the end of a calendar year, to Budget Division, along with all payments made in pursuance of the guarantee. For this purpose, a format has been prescribed through Notification on FRBM Rules, dated 2nd July, 2004. The report should reach Budget Division by the 2nd Week of January every year, for incorporating in Explanatory Memorandum in the Budget.

**10.10.3** In case of a guarantee being invoked, the expenditure involved shall be treated as loan to the person/party on whose behalf the guarantee was given, and recoveries against it shall be watched. The expenditure as well as the recoveries, if any, should be classified under a distinct sub-head "Loans on invoking guarantees given by Government", in the Government account. This will be done under the relevant loan major head, exhibiting the name of the person/party against which it is indicated as loan, as the detailed head. If in due course, the whole or a part of the loan amount is finally held to be irrecoverable, the same should be adjusted in the manner indicated below:

- a. Where a Guarantee Reserve Fund is already in existence, the amount of loan held to be irrecoverable shall be adjusted by debit to the Fund, through the same accounting procedure as prescribed for accounting of expenditure financed from reserve Funds. This is as per para 3.4 of the General Directions in the List of Major and Minor Heads of Account.
- b. Where a Guarantee Reserve Fund does not exist, the irrecoverable amount of loan shall be adjusted under the minor head "Irrecoverable Loans Written Off", below the major/sub-major head relevant to the purpose/function for which the loans etc. had been granted. Where the loan cannot be identified with any purpose or function, the amount should be adjusted through minor head under the major head "2075-Miscellaneous General Services", as per para 3.3 of

the General Directions contained in the List of Major and Minor Heads of Account.

(Authority: Ministry of Finance (DEA) O.M. No. F.1 (34)-B (AC)/76 dated 8th August, 1979.)

**10.10.4** Data regarding the issue of guarantees will not be subject to check by the Accounts Office. The information relating to Statement Number- 4 of the Finance Accounts of the Union Government, for the guarantees outstanding at the end of a financial year shall be called for from the Finance Wing of each Ministry/Department. The Finance Wing shall be responsible for its correctness, and must ensure to send the duly confirmed statement to the concerned Pr. Chief Controller of Accounts/ Chief Controller/Controller of Accounts by the 21st of April each year. The CCA/CA in turn, would arrange to furnish the same to the Finance Accounts Section of the office of Controller General of Accounts, latest by 31st May each year. Such returns sent by the Chief Controllers/Controllers of Accounts will also show the cases of guarantees revoked during the year, if any. Since the payments for invoked guarantees shall be treated as loans, the figures of paid amounts in the Statement should be based on the accounts figures booked by Pay and Accounts Officer concerned.

**10.10.5** As a measure to boost the confidence of banks and financial Institutions towards Government guarantees, a 'Guarantee Redemption Fund' has been created for cases of redemption of guarantees given by the Union Government to Central Public Sector Undertakings, Financial Institutions etc.

In order to meet the contingent liability arising out of guarantees invoked by Public Sector Banks every year, an amount as decided each year is provided under the head 'Transfer to Guarantee Redemption Fund' below the Major Head '2075-Misc. General Services' in the Demand for Grant of Ministry of Finance, DEA.

The amount provided as 'Transfer to the Fund' will be accounted for under a distinct sub-head 'Transfer to Guarantee Redemption Fund' below the Minor heads '797-Transfer to Redemption Fund/Deposit Account' under the Major head '2075-Misc. General Services'. Contra credit shall be afforded to the Major Head-8235- General and other Reserve Fund-117- Guarantee Redemption Fund. When guarantees are invoked by Public Sector Banks, the expenditure incurred will be accounted for at Sub-Head level of the loan head, as "Loans on invoking guarantees given by the Government' with the name of the loanee indicated as the detailed head. Recovery from the Fund will also be accounted under the loan head as Deduct entry below minor head '902- Deduct- amount met from Guarantee Redemption Fund'.

[Authority-File No. 1(10)(10)/2001]

## **10.11 INVESTMENTS**

**10.11.1** Investments are made by Government mostly in Public Sector Undertakings or statutory corporations. In addition to the scrutiny of sanctions for payment on the lines of payment of loans and making payment on bills, the Pay and Accounts Office shall also ascertain whether Government has actually received shares against the investment(s) made by it in the concerned company. A record of the investments made by Union Government in statutory corporations, public sector companies, other joint stock companies, cooperative banks and societies etc. shall be kept in a "Register of Investments" in Form CAM-60. This register shall be maintained by the Principal Accounts office or the Pay and Accounts Office responsible for release of funds for investments. The receipt of dividends shall also be watched through this register.

**10.11.2** The following information will be obtained from the Ministry/Department concerned for maintaining the Register of Investments-

(a) Whether the concerned company etc has issued share scrip for the full value of investment to the



Government, in the name of the President of India;

(b) Name and designation of the officer responsible for the safe custody of share scrip;

(c) Whether share scrip are in the custody of the officer or kept in the accredited public sector bank or it has been kept in stock with the Reserve Bank of India (Public Debt Office);

(d) Whether physical verification of the share scrip is done periodically;

(e) Details of the dividend declared by the companies; and

(f) Full particulars on the realization of dividend from the company and their credit to Government account, as well as verification of their actual credit in Government account.

### **10.12 PERMANENT ADVANCES**

**10.12.1** Permanent advance is normally granted to officers who have to make payment before they can place themselves in funds by drawing money from the Pay and Accounts Office, subject to the provisions under Rule 291 of GFRs 2005.

**10.12.2** A note of each item of Permanent Advance given to various authorities shall be kept in the "Register of Permanent Advances" (Form CAM-61). If the amount of an advance is increased or reduced during the course of a year, the amount in the column for the current year should be altered in red ink as soon as payment of the increased advance is made or credit representing difference due to reduction is received from the officer concerned. The amount of the advance outstanding as on 31st of March each year should be entered in the money column for the subsequent year.

**10.12.3** Sanctions for permanent advance accorded by Heads of Department are to be scrutinized to see-

(i) That the officer sanctioning the advance is a recognized Head of Department;

(ii) That the advance is intended for the subordinate and not for his own office; and

(iii) That the advance has been sanctioned in accordance with the provisions of Rule 291 of GFRs 2005.

**10.12.4** Acknowledgement from the officers holding permanent advance shall be obtained as on 31st March, in the month of April. Further, from the Register of Permanent Advances, the aggregate outstanding amount should be worked out and tallied with the ledger balance.

**ANNEXURE A**  
**(Referred to in Para 10.1.2)**

**MOST IMMEDIATE**

**No. F.4(17)-B(SE)/79**  
**Government of India**  
**Ministry of Finance**  
**Department of Economic Affairs**

Delhi, the 28th June, 1980

**OFFICE MEMORANDUM**

**Subject:-** Loans and advances by the Central Government-Interest rates and other terms and conditions.

Reference this Ministry's Office Memorandum No. F.14 (17)-B (SE)/79 dated the 27th March, 1980, on the subject mentioned above.

**A. INTEREST RATES**

**1.1** The Central Government's lending rates for State and Union Territory Governments, public sector enterprises and other parties have been reviewed. It has been decided that the rates indicated in paragraph 3 below will be applicable to loans to be sanctioned from 1st July, 1980 and these will remain in force until 30th June, 1981, unless revised earlier.

.....Paras 2,3 and 4 not printed.....

**B. OTHER TERMS AND CONDITIONS**

The instructions issued from time to time have been updated in the following paragraphs for facility of reference.

**5. PAYMENT PERIOD**

**5.1** The period for the repayment of loans should be fixed with due regard to the purpose for which they are advanced and it should be restricted to the minimum possible. Normally no loan should be granted for a period exceeding 15 years. Where a longer period for repayment is sought, prior concurrence of the Budget Division in this Department will be necessary for fixing the period unless already obtained for a particular category of loans or the period has been prescribed by instructions issued by this Ministry earlier. In no case, however, the period of the loan should exceed 30 years.

**5.2** A suitable period of moratorium towards repayment might be agreed to in individual cases having regard to the projects for which the loans are to be utilised. However, no moratorium should ordinarily be allowed in respect of interest payment on loans.

**5.3** The repayment on a loan should normally commence from the first anniversary date of its drawal or on expiry of the period of moratorium, as the case may be. The recovery should ordinarily be effected in annual equal instalments of principal.

**5.4** In the case of loans to State Governments, sanctioned on or after 1st April, 1980, the arrangements for payment of annual instalment of principal and interest will be as under:-

(i) Block loans for State Plan Schemes and other Plan loans (including loans for Centrally Sponsored Schemes) but excluding loans for relending to industrial and commercial undertakings and individuals:-These loans when drawn in instalments, will be consolidated and deemed to have been drawn as on 1st October in each year. The period of these loans will continue to be 15 years, repayments being made in 15 annual equal instalments together with interest on the outstanding balance commencing from the following year. The amounts annually payable (by way of principal and interest) would be recovered in the four equal instalments on 1st July, October, January, and March each year.

(ii) Small Savings Loans:-The loans advanced during the year will be consolidated as on 1st October each year. The period of the loans will be 25 years including an initial moratorium of five

years towards repayment of principal during which interest will be recovered in four equal instalments on 1st July, October, January and March each year. On expiry of the period of moratorium, the loans will be recovered in 20 annual equal instalments, the amount annually payable (by way of principal and interest) being recovered in four equal instalments on the 1st of July, October, January and March each year.

(iii) In the case of loans to State Governments, of which terms of repayment include consolidation as on 1st of October each year (viz. Block loans for State Plan Schemes and other Plan loans as also loans out of small savings collections), consolidation will be done separately for (A) Loans advanced during the month of April and May, 1986 and (B) loans drawn from 1st June, 1986 onwards at revised rates of interest. But for this, there will be no change in the manner of calculation of interest and its recovery on recovery of principal.

(iv) Other Loans:-The terms of repayment of these loans will be as laid down from time to time.

### **5.5 In the case of public sector projects:**

(a) for new installations or expansion of existing institutions:

(i) The terms and conditions of loans should be fixed with reference to financial picture presented in the approved project report. (Once the pattern is settled, there should be no change excepted with the specific concurrence of this Department for reasons to be stated in writing).

(ii) The capital requirements of a project should include adequate provisions for interest payment on borrowings during the period of constructions (as specified in the Project Report). The interest on loans due during the period of construction will be allowed to be capitalised to the extent of the provisions made for this purpose in the approved project report. In other words, while interest on loans advanced to an undertaking during the period of construction will be notionally recovered by allowing its capitalisation, the payment of interest should effectively commence after the construction period is over.

(iii) The repayment of principal should ordinarily commence one year after the project commences production, the number of instalments being determined with reference to the financial projections and repaying capacity specified in the project report. Requests for further moratorium will be considered only in exceptional cases where the project report has specified any special circumstances that may necessitate a longer period of moratorium and has indicated clearly what staggering of repayment would be needed over the necessary break period. The period of loans sanctioned against capitalised interest during the period of construction may also be on the same terms and conditions as are applicable to loans provided for financing the project costs.

(b) In other cases: A suitable period of moratorium subject to a maximum of five years from the date of drawal of the loans may be allowed for the repayment of instalments of principal, having regard to the nature of the project, the stage of construction etc. The period of moratorium should not, however, extend in any case, beyond two years from the date of project going into production, or in the case of programmes of expansion, beyond two years from the date of expanded project coming into operation.

(c) For meeting working capital requirements: (i) The undertakings are expected to obtain their cash credit requirements from the State Bank of India/Nationalised Banks by hypothecating their current as-sets (such as, stock of stores, raw materials, finished goods, work in progress, etc) and where the entire working capital requirements cannot be raised in this manner by seeking a guarantee from Government. Accordingly, request from public sector undertakings for funds for meeting working capital requirements should be considered only to the extent the same cannot be had from the State Bank of India/Nationalised Banks. (ii) The period of repayment of working capital loans should preferably be restricted to two or three years. In no case, however, the period of these loans should exceed 5 years.

## **6. REPAYMENT BEFORE DUE DATE**

**6.1** Any instalment paid before its due date may be taken entirely towards the principal provided it is accompanied towards interest due upto date of actual payment of instalment; if not the amount of the instalment will first be adjusted towards the interest due for the preceding and current periods and the balance if any, will alone be applied towards the principal. Where the payment of the instalment is in advance of the date by 14 days or less, interest for the full period (half year or full year as the case may be) will be payable.

## **7. PENALTY CLAUSE**

**7.1** In terms of Rule 228(1) of the General Financial Rules (GFRs), 2005 the loan sanctions/agreements should invariably include a penalty clause providing for levy of a higher rate of interest in the event of default in repayment of instalment(s) of principal and/or interest. The higher/penal rate of interest should not be less than 2.75 percent above the normal rate of interest at which a loan is sanctioned.

**7.2** It should be clearly understood that the disallowance of rebate of quarter per cent in interest rate; mentioned in para 3.4 above in the event of delay in payment would not be a sufficient penalty for the default.

**7.3** The interest rates should be appropriately indicated in the Annexure in the loan sanctions (see paragraph 11 below). In the loan agreements with private parties (co-operative societies, statutory bodies other than Public Sector enterprises, private concerns, individuals, etc.) the interest clause should be included as illustrated below; the illustration refers to a loan carrying normal rate of interest at 10<sup>1</sup>/<sub>2</sub> per cent per annum.

Illustration "The loan will carry interest at 13 per cent per annum payable annually. Provided however, that in the event of prompt payment of instalment(s) of principal and /or interest by the due date. the rate of interest in relation to the said instalment(s) will be reduced to 10<sup>1</sup>/<sub>2</sub> per cent per annum."

## **8. DEFAULTS IN REPAYMENT/INTEREST PAYMENT**

**8.1** In the event of a default the recovery of interest at penal rate may not be waived unless there are special reasons justifying a waiver; a decision in the regard should be taken at an adequate level on the advice of the Financial adviser. Even in such cases, a minimum of ¼ percent should be recovered from the defaulting party as penalty.

**8.2** Where administrative Ministry/Department is satisfied having regard to the circumstances of a case that penal interest need not be recovered the borrower should invariably be asked in accordance with the provisions of GFR 228(4) to pay interest at the normal rate prescribed in the loan sanction on the overdue amount for principal and for interest) from the due date of payment upto the date of the settlement of the default. The recovery of additional interest should not be waived except where the period of default is very short e.g. a few days. However such a waiver would not entitle the borrower to rebate on delayed payments.

**8.3** It should be noted that in the case of public sector enterprises, the penal rate of interest is chargeable on the overdue instalments of principal and/or interest from the due date of their payment to the date preceding the date of actual payment. In other cases covered by the illustration in paragraph 7.3, however, interest at higher rate is to be calculated on:

(i) Outstanding balance of the loan from the date of payment by the borrower of the instalment previous to the defaulted one till the due date of payment, plus

(ii) Compound interest on the instalment of principal, if any, in default and the interest worked out as per (i) above to be calculated from the due date of payment till the date preceding the date of actual payment.

**8.4** Whenever a fresh loan is to be sanctioned to a borrower who has earlier defaulted, the loan sanctioning authority must consider the question of recovery of defaulted dues. Where, for any special reasons, recovery of defaulted dues is not proposed to be enforced, the reasons must be recorded in writing and, in important cases, the Financial Adviser should bring them to the notice of Secretary (Expenditure), Ministry of Finance, before sanctioning any fresh loan.

## **9. REQUESTS FOR MODIFICATION OF TERMS OF LOANS**

**9.1** Under GFR 219(2) borrowers are required to adhere strictly to the terms settled for loans made to them and modifications of these terms in their favour can be made subsequently only for very special reasons. Requests for modification of terms may relate to increase in the period of a loan or of an initial moratorium period towards repayment or waiver of penal interest or reduction in or waiver of normal rate of interest. The procedure of dealing with request for waiver of penal interest has already been dealt with in paragraph 8. Cases involving other modification in repayment terms should be considered with the Budget Division in this Ministry. In referring such cases the impact of the modifications on the estimates of repayment/interest which have gone into the Budget and Government's resources position should be succinctly brought out by the administrative Ministry.

**9.2** In examining proposals for modification of the period of the loan, the interest rate at which the loan was sanctioned should also be reviewed as in case the period is extended, the interest rate would correspond to the longer term as if the loan had been sanctioned for the extended period ab initio.

In the case of a loan of which repayment has already commenced the revised rate of interest should be applied ad initio only to residuary portion of the loan outstanding on the date of extension of its period.

**9.3** Requests for waiver of recovery of normal interest (either for a specified period or for the entire period) on a loan which was originally sanctioned at normal rate of interest, will attract the provisions of Government of India's decision (2) below G.F.R. 221(2) and should be dealt with accordingly.

## **10. LOANS SANCTIONED AT CONCESSIONAL RATES**

**10.1** In cases where loans are to be sanctioned at a concessional rate, the instructions contained in Government of India decision (2) below GFR 221(2) have to be observed. In such cases, payment of subsidy (to cover the concession viz, differences between normal rate and concessional rate) should be made condition upon prompt repayment of principal and payment of interest thereon by the borrower.

**10.2** In cases where loans are sanctioned interest free (e.g. loans to technical educational institutions for construction of hostels) prompt repayment should be made a condition for the grant of interest free loans. That is to say, the sanction letter in such cases should provide that in the event of any default in repayment, interest at rates prescribed by Government from time to time will be chargeable on the loans.

**10.3** Similarly in the case of interest free loans to departmental canteens where subsidy is also provided to meet running expenses, the sanction letter should stipulate that in the event of any default in repayment, the defaulted due would be recovered out of the subsidy payable.

## **11. MISCELLANEOUS**

**11.1** A standard form prescribed for issue of loan sanctions (Appendix-I) should ordinarily be followed.

**11.2** The date of drawal of loan by the borrower will be date on which he received cash, cheque or bank draft from the drawing and disbursing officer. It should be ensured that the time lag between the date of obtaining the cash/cheque/bank draft and its disbursement/delivery/despatch to the payee is reduced to the minimum. Where the cheque or bank draft is sent through post, the date of posting should be treated as the date of disbursement of the loan. The drawing and disbursing officer should invariably intimate the date of payment to his Accounts Office to enable the latter to make a suitable note in his records.

**11.3** In the case of loans sanctioned to parties other than State and Union Territory and foreign Government and Government servants, the borrower should tender the amounts due on or before the due date, at the New Delhi Head Office/main Office of the public sector bank accredited to the Ministry/Department which sanctions the loan, in cash or by cheque or draft drawn on any scheduled bank in Delhi/New Delhi in favour of the said authorized bank branch. The payment should be accompanied by a memorandum or challan in duplicate indicating (a) name of the loan sanctioning Ministry/Department; (b) No. and date of the loan sanction letter and the loan amount sanctioned; (c) amount due for payment separately for interest and principal and the head(s) of account to which the dues are to be credited in the Government Accounts; and (d) due date of payment. The borrowers should be asked to tender separate cheque/drafts and challans for payment of principal and interest.

Outstation loanees are required to arrange payment of the dues through their bank ensuring that the Memorandum/challan and the cheque/draft reaches the aforesaid authorized bank branch in New Delhi by the due date.

**11.4** Ministries/Departments are required to keep close watch on timely repayments of loans advanced by them and recovery of interest thereon. Note (4) below GFR 219(2) provides for a notice to be given to the borrowers a month in advance of the due date of payment of instalment of the principal and/or interest thereon. Such notices may be sent in the form given in (Appendix II). The borrower should not, however, be given any advantage in the event of non-receipt of such a notice.

Repayments/interest payments due from the loanees should also be reviewed, at least quarterly, and, where any default has occurred, a fresh notice should be served on the borrower to arrange payment with penal/higher rate of interest in the form set out in Appendix III.

**11.5** Individual cases relating to terms and conditions of loans may not be referred to the Department of Economic Affairs (Budget Division) unless it is proposed to deviate from those laid down in this Office Memorandum.

## **12. MONTHLY REPORTS OF DEFAULTS TO BE SUBMITTED TO BUDGET DIVISION**

A monthly report of defaults of principal & Interest in the form set out in Appendix IV should be sent by Ministries/Departments to Budget Division by the end of the month following the month to which the transactions relate.

Sd/-

(A.S.Ray)

Deputy Secretary (Budget)

To  
All Ministries, etc....

**APPENDIX-I**  
**FORM OF SANCTION LETTER**

To

(In case of State and Union Territory Government to be addressed to

- i) Chief Controller of Accounts/Controller of Accounts concerned
- ii) Secretary of the Administration Department of the State/UT Government)

(in other cases to be addressed to :

- i) The borrower
- ii) Controller of Accounts of the Ministry/Department of.....)

Subject:-

Sir,

I am directed to convey the sanction of the President to the payment of loan of  
Rs.....(in figures).....(in words) to

1. The essential details are given in the Annexure to this letter.
2. (Conditions of fulfilment of which loan is to be sanctioned e.g., those given in Government of India's decision) below rule 158 of G.F.R. to be inserted, if necessary).
3. This sanction has been accorded in accordance with the rules/principles laid down with the previous consent of the Ministry of Finance and that the rate of interest on the loan and period of repayment thereof have been fixed in accordance with the existing instruction issued by them.

Yours faithfully,

(            )

No. .... dated .....

Copy to the Accountant General concerned in the case of State and union territory Government only).

Annexure to the Ministry/Department of ..... letter No.

..... dated .....

## LOANS AND ADVANCES BY CENTRAL GOVERNMENT

1. Name of the Borrower .....
2. Amount sanctioned (in words & figures)  
  
Rs. ....(in figures)  
Rupees .....
3. Sanction valid upto .....
4. The purpose of loan .....
5. Payable in cash or by adjustment .....
6. Plan/Non-Plan (in the case of Plan category of Plan) .....
7. Grant & Sub-head under which amount sanctioned is debitable .....
8. Progressive amount of loan sanctioned to the borrower to date in the financial year  
.....
9. Period of loan .....
10. Moratorium to words repayment, if any .....
11. Date and year from which repayment to commence .....
12. Mode of repayment .....
13. Interest:
  - (I) For loans to State Government, Union Territory Government & Public sector enterprises:
    - a) normal rate .....
    - b) Penal rate of interest in events of defaults in repayment/interest interest  
.....
    - c) Mode of recovery of interest .....
  - (ii) For parties other than State Government, Union Territory Governments and Public Sector Undertakings:  
  
Mode of recovery of interest .....

Signature .....  
(Seal of the Sanctioning Authority)



**APPENDIX -II**  
**NOTICE**

No.-----  
OFFICE OF THE CHIEF CONTROLLER OF ACCOUNTS  
MINISTRY/DEPARTMENT OF -----

New Delhi, dated the -----

To

-----  
-----

Subject:- Repayment of loan and payment of interest thereon.

Dear Sir,

According to the terms of the loan of Rs.-----sanctioned to you vide  
Ministry/Department of -----letter No.-----  
---dated -----the annual repayment instalment and/or interest their on,  
detailed below, will become due on -----

(i) Repayment Rs.-----  
(in words and figures)

(ii) Interest Rs.-----  
(in words and figures)

2. Please arrange the payment by the due . It should be noted that the amount of interest has been calculated on the assumption that payment will be arranged promptly, otherwise it will be revised upwards in accordance with the terms of the loans.

3. The amount due----- (New Delhi head office main office of the Authorised Bank(PSB)----- accredited to the Ministry/ Department) ----- in cash or by cheque or draft drawn of any scheduled bank/New Delhi in favour of the aforesaid PSB Branch. The payment should be accompanied by a memorandum or challan, in duplicate, giving the following details:-

(i) Name of the Ministry/Department -----

(ii) Name of the Borrower -----

(iii) No. and date of the loan sanction letter with the loan amount sanctioned -----

(iv) Amount due for payment, separately for interest and repayment -----

(v) Due date of payment -----

(vi) The head of the account indicated below, to which the amounts will be adjustable in Government accounts, should, be included in the challan;-

Head of Account

(i) Instalment of Principal

(ii) Interest

4. Separate cheque/draft and challans should be submitted for payment of principal and interest.

5. For outstation loanees, payment of dues together with memorandum/challan is to be arranged through their bank to the aforesaid authorised bank in new Delhi by the due date.

Yours faithfully

Accounts Officer

REGISTERED A.D.

**APPENDIX-III**  
**IMPORTANT NOTICE**  
No.-----  
**OFFICE OF THE CHIEF CONTROLLER OF ACCOUNTS**  
**MINISTRY/DEPARTMENT-----**

New Delhi, dated.....

To

-----  
-----

Subject;- Repayment of loan and payment of interest thereon.  
Dear Sir,

I am to state that the payment of Rs.-----and Rs.-----  
--(as detailed below) representing principal and interest respectively, which fell due on ----- in  
respect of loans mentioned thereagainst, has not so far been arranged by you.

Loan sanction No. & Date

- (i) Principal-----
- (ii) Interest-----

2. Please arrange to deposit the aforesaid amount to the account of the Government of India within 10 days of the issue of this letter, failing which other measures would be initiated.  
In case of the payment in question has already been made to the Government, particulars of the cheque/demand draft and the date of deposit the .....(Name of Authorised Bank branch) be indicated immediately.

Yours faithfully,  
Accounts Officer

## APPENDIX IV

### MONTHLY REPORT DEFAULTS IN REPAYMENT OF LOANS AND PAYMENT OF INTEREST

Organisations	Repayment of Loans 2004-05				Payment of Interest 2004-05			
	Defaults upto 31.3.04	Current due for 2004-05	Due upto the end of	Actual repayment upto	Defaults upto 31.3.2004	Current due for 2004-05	Due upto the end of	Actual repayment upto
			Month	Month			Month	Month

State Government\*

-  
-  
-

PSUs\*

-  
-  
-

Other Parties\*

-  
-  
-

\* States, PSUs or other parties where the cumulative defaults exceed Rs.1 crore may be identified separately.

Other may be grouped.

Remarks: Reasons for default and action taken may be indicated .