IAS PARLIAMENT
Information is Empowering
A Shankar IAS Academy Initiative

Accessing ODA by State Entities

Why in news?

\n\n

The Cabinet had approved policy guidelines to allow financially sound State government entities to borrow directly from bilateral **Official Development Assistance (ODA)** partners for implementation of vital infrastructure projects.

\n\n

How the system was functioning till now?

\n\n

As of now, the funding arrangements that bilateral agencies such as Japan International Cooperation Agency (JICA) provide, is either with State governments or central PSUs — **State entities are not allowed.**

\n\n

How it will be from now on?

\n\n

\n

- If any State entity needs funding for its projects, it has to approach the State government and any such funding would be included under the State's borrowing limits set by the Fiscal Responsibility and Budget Management (FRBM law).
\n
- So based on some conditions, a section of State entities with revenue of Rs. 1,000 crore or more, who are working on infrastructure projects worth over Rs. 5,000 crore, have been permitted to directly take money from such funding agencies.
\n
- All repayments of loans and interests to the funding agencies will be directly remitted by the concerned borrower.

\n

- The concerned State Government will furnish guarantee for the Loan. The Government of India will provide counter guarantee for the loan.
  \n

\n\n

What are the implications?

\n\n

\n

- **Large infrastructure projects** being executed by State government entities will find it easier to tap international funds from bilateral financing agencies, with the Cabinet enabling them to directly access funding from such agencies on the basis of a central government guarantee while keeping such loans off States' books.
  \n
- Citing the example of the almost Rs. 18,000 Mumbai Trans-Harbour Link project, where JICA is expected to lend more than Rs. 15,000 crore.
  \n

\n\n

What is the way ahead?

\n\n

\n

- The route must be used prudently for select projects in a State as taking such financing out of the FRBM framework could tempt States to borrow too much for all sorts of projects.
  \n
- There need to be some checks in place to ensure that future governments aren't saddled with too much long-term debt on terms that appear to be soft now, but could become costlier over the years if you factor in the forex risk on top of the inherent risks in long-gestation infrastructure projects.
  \n

\n\n

\n\n

Source: The Hindu

\n