

A Study of Off-Budget Borrowings in India

For the 16th Finance Commission

A Study of Off-Budget Borrowings in India

For the 16th Finance Commission

Some rights reserved

This work is a product of the staff of the World Bank. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of the Executive Directors of The World Bank or the governments they represent.

The World Bank does not guarantee the accuracy, completeness, or currency of the data included in this work and does not assume responsibility for any errors, omissions, or discrepancies in the information, or liability with respect to the use of or failure to use the information, methods, processes, or conclusions set forth. The boundaries, colors, denominations, links/footnotes, and other information shown in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries. The citation of works authored by others does not mean the World Bank endorses the views expressed by those authors or the content of their works.

Nothing herein shall constitute or be construed or considered to be a limitation upon or waiver of the privileges and immunities of The World Bank, all of which are specifically reserved.

Table of Contents

Acknowledgments.....	i
Abbreviations.....	ii
Executive Summary.....	1
Section A: Background.....	3
Section B: Defining OBB.....	5
Section C: Analytical and Conceptual Framework for Selecting Sample States.....	8
Section D: Classification and Typology of OBBs.....	10
Section E: Results of Analysis of 12 States.....	11
Credibility Issues in Reporting of OBBs.....	11
Absence of Independent Institutional Validation Mechanisms.....	12
Lack of Uniform Definition and Reporting Standards.....	12
Escrowing of Future Revenues and Imposition of Cesses.....	13
Missing Data Trail in Some Cases.....	14
Opacity Resulting from Indiscriminate Use of Minor Head 800.....	14
Inadequate Accounting of Loans to PSUs and SPVs.....	15
Section F: Further Attempts at Data Analysis and Results.....	16
Significant Lending by PSBs to State PSUs/SPVs.....	17
Recommending Additional Disclosures of Loans Given to State PSUs/SPVs in PSB and Financial Institution Accounts.....	18
Section G: Other Fiscal Risks Related to Items Not Included in OBBs.....	20
Urgent Need for Reforming the Chart of Accounts.....	22
Section H: Suggesting a Reporting Framework.....	23
International Good Practices.....	23
CAG's Suggestions on Separate Reporting on Off-Budget Financing.....	24
Recommended Reporting Framework for OBBs.....	25
Suggested Format for Reporting the Above.....	25
Annexure I: Examples of EBFs.....	27
Annexure II: Classification and Typology of OBBs.....	28
Annexure III-A: Off-Budget Borrowings: Summary of Findings (all figures in Rs crore).....	33
Annexure III-B: Results of the Analysis of Data on 12 States.....	38
Annexure IV: Disbursement of Loans by Public Sector Banks to State PSUs.....	41

Tables

Table 1: Subsidy as a percentage of revenue expenditure and GSDP, sorted by FY2022	8
Table 2: Cases flagged and reported by the CAG as OBB	10
Table 3: Comparison of OBBs, 2021–22	11
Table 4: Off-budget borrowings: Stock and flow	12
Table 5: Composition of OBB liabilities across categories for FY2022–23 (Rs crore)	13
Table 6: Expenditure booked under Minor Head 800 in FY2022–23	14
Table 7: OBB liabilities at the end of FY2024	16
Table 8: Borrowings from PSBs	17
Table 9: State-wise and program-wise disbursement of loans by NABARD to state corporations/entities .	19
Table 10: Detailed breakup (Rs crore)	20

Figures

Figure 1: General government sector and its subsectors	5
--	---

Boxes

Box 1: Illustrations of OBBs from CAG reports	13
Box 2: CAG: Non-transfer of cess to its purpose impacts fiscal deficit	21

Acknowledgments

This technical paper is part of a series of studies prepared by World Bank staff at the request of the 16th Finance Commission, Government of India. The policy discussions, analyses, and recommendations in this technical paper have been developed based on extensive discussions and consultations with the 16th Finance Commission.

Special thanks are due to Dr. Arvind Panagariya, Chairman, 16th Finance Commission (FC) for his guidance and support. The paper has also been enriched by the active engagement, discussions, and deliberations with the members of the 16th FC; Mr. Ritvik Pandey (Member Secretary), Mr. Rahul Jain (Joint Secretary), and Mr. Raghavendra Singh (Joint Director).

This paper was prepared by a team led by Manoj Jain (Governance Program Coordinator and Lead Governance Specialist), under the guidance of Auguste Tano Kouame (Country Director, India), Mathew A. Verghis (Regional Director for South Asia, Prosperity Vertical), Hisham Waly (Practice Manager, Governance Global Practice) and Hoon Sahib Soh (Practice Manager, Economic Policy Global Practice). The core team included Tanvir Malik (Economist), Rajni Khanna (Sr. Public Sector Specialist), Govind Bhattacharjee (Sr. Consultant), Srinivas Alamuru (Sr. Consultant), Leif Jensen (Sr. Consultant), Rishabh Chhabra (Research Analyst), Yuvraj Jagetiya (Research Analyst), and Tanusree Talukdar (Sr. Program Assistant). The report also benefited from contributions of Vincent Tsoungui Belinga (Sr. Economist), Aurelien Kruse (Lead Economist), and Michel Ragnvald Mallberg (Sr. Public Sector Specialist).

The analyses in this paper were primarily based on desk research. Additional information was also sought by the 16th Finance Commission from select State Finance Departments and State Accountant General (AG) offices, which was then shared with the World Bank team for analysis.

Abbreviations

AG	Accountant General	NABARD	National Bank for Agriculture and Rural Development
APRDC	AP Road Development Corporation	NBC	Net Borrowing Ceiling
APSDC	AP State Development Corporation	NCDWS&Q	National Centre for Drinking Water, Sanitation and Quality
ARET	Additional Retail Excise Tax	NHAI	National Highways Authority of India
BMTPC	Building Materials and Technology Promotion Council	NHDC	Narmada Hydroelectric Development Corporation Limited
CAG	Comptroller and Auditor General	NRIDA	National Rural Infrastructure Development Agency
CIL	Coal India Limited	NTPC	National Thermal Power Corporation
CoA	Chart of Accounts	NUHF	National Urban Housing Fund
COFOG	Classification of the Functions of Government	NSSF	National Small Saving Fund of India
CONCOR	Container Corporation of India Ltd	NVDA	Narmada Valley Development Authority
DFS	Department of Financial Services	OBB	Off-Budget Borrowing
EBB	Extra-Budgetary Borrowing	OFB	Off-Budget Financing
EBF	Extra-Budgetary Fund	PFC	Power Finance Corporation Ltd
EBR	Extra-Budgetary Resource	PFM	Public Financial Management
FCI	Food Corporation of India	PMAY	Pradhan Mantri Awaas Yojana
FRBM	Fiscal Responsibility and Budget Management	PNB	Punjab National Bank
FRBMA	Fiscal Responsibility and Budget Management Act	PPP	Public-Private Partnership
GFS	Government Finance Statistics	PSB	Public Sector Bank
GFSM	Government Finance Statistics Manual	PSE	Public Sector Enterprise
GOI	Government of India	PSU	Public Sector Undertaking
GSDP	Gross State Domestic Product	REC	Rural Electrification Corporation Ltd
GST	Goods and Services Tax	RBI	Reserve Bank of India
GTSNY	Gramin Tola Sampark Nischay Yojna	SBA	Special Banking Arrangement
HUDCO	Housing and Urban Development Corporation	SBI	State Bank of India
IAS	International Accounting Standards	SBM	Swachh Bharat Mission
IMF	International Monetary Fund	SFAR	State Finances Audit Report
IRFC	Indian Railway Finance Corporation	SPSE	State Public Sector Entity
JVC	Joint Venture Company	SPV	Special-Purpose Vehicle
KIIFB	Kerala Infrastructure Investment Fund Board	SSP	Sardar Sarovar Project
KSSPL	Kerala Social Security Pension Limited	UAHD	Urban Administration and Housing Department
MMSPY	Mukhya Mantri Shari Peya Jal Yojna	ULB	Urban Local Body
MPUDC	Madhya Pradesh Urban Development Corporation		

Executive Summary

Off-budget borrowings (OBBs) refer to borrowings undertaken by public sector entities outside the immediate fiscal oversight of government budgets but with repayment obligations effectively guaranteed or serviced by governments.

Governments typically resort to OBBs to accommodate persistent and increasing subsidy demands and to finance recurrently loss-making public utilities and large infrastructure projects. OBBs allow expenditures without transparent budgetary disclosure. This practice distorts the true fiscal picture and leads to fiscal opacity, hidden debt accumulation, and weakened public financial management. Additionally, it heightens macro-fiscal risks, including increased borrowing costs and negative impacts on economic growth. Successive Finance Commissions have expressed concern over the practice of OBBs and their poor reporting.

While the Union Government took corrective steps by bringing 93 percent of its off-budget liabilities (approximately Rs. 3.7 lakh crore) onto its balance sheet by FY2022, similar initiatives have been sporadic and largely absent at the state level. Even efforts to regulate OBBs by adjusting states' net borrowing ceilings (NBCs) have had limited success.

This paper analyzes the prevalence, scale, and typologies of OBBs by state governments, aiming to reduce associated fiscal risks through a robust reporting and disclosure framework.

The absence of a consistent definition and a formal reporting framework has complicated the identification and quantification of OBBs. For this study, OBBs have been defined pragmatically as borrowings by public sector undertakings (PSUs), special-purpose vehicles (SPVs), or other government-controlled entities where the repayment is supported through grants, guarantees, or escrow of future government revenues. This definition aligns with the approach adopted by the Comptroller and Auditor General (CAG) in its State Finances Audit Reports (SFARs).

A systematic assessment of 12 selected states—chosen based on their subsidy-to-expenditure ratios—reveals significant variations in the size, types, and reporting of OBBs. The study identifies a wide typology of OBBs. These include unbudgeted government programs financed through subnational entity borrowings, directed borrowings by public entities, guarantee-backed loans by loss-making institutions, and fully serviced bonds issued outside government accounts.

The key findings of the paper include the following:

- 1. Inconsistent reporting:** Disparities between CAG reports and state disclosures, with Tamil Nadu, West Bengal, and others significantly underreporting OBBs.
- 2. Fiscal risks:** States like Andhra Pradesh, Telangana, Kerala, and Tamil Nadu face substantial off-balance sheet liabilities (up to 10 percent of gross state domestic product [GSDP] in some cases), raising concerns over breach of fiscal responsibility and budget management (FRBM) targets.
- 3. Opaque practices:** Rampant use of 'Minor Head 800 - Others' to mask grants for loan servicing and escrowing of revenues in violation of constitutional mandates (Andhra Pradesh, Madhya Pradesh, and Kerala).
- 4. Institutional gaps:** Absence of independent validation by the CAG and lack of a comprehensive national

accounting standard, and the need to consider enhancing disclosures by lending institutions like public sector banks (PSBs) and non-banking financial institutions (NBFIs) like the National Bank for Agriculture and Rural Development (NABARD) and the Housing and Urban Development Corporation (HUDCO) for lending to state governments.¹

5. Misclassification and deferment of liabilities: Undetected fiscal risks owing to misclassification of expenditures, deferred payments, and misuse of public account mechanisms.

Additionally, the study highlights broader structural weaknesses, including an outdated chart of accounts (unchanged since 1987), absence of consolidated public sector fiscal reporting, and noncompliance with international fiscal transparency norms.

The study recommends the urgent modernization of accounting practices and advocates the institution of a uniform,

mandatory reporting framework for OBBs. Measures proposed include

- Development of a policy and disclosure framework for all off-budget financing (OBF);
- Separate reporting on guarantees, grants, and loans to state entities;
- Annual disclosure of revenue forgone and escrowed revenues;
- Comprehensive lender-wise disclosure of loans guaranteed by states; and
- Promotion of practices such as Karnataka's approach of broadening the definition of liabilities under its fiscal responsibility legislation.

In conclusion, robust identification, disclosure, and monitoring of OBBs are critical steps toward restoring fiscal credibility, ensuring macroeconomic stability, and strengthening India's federal fiscal architecture. Immediate and sustained reform in reporting, accounting standards, and fiscal risk management is indispensable.

¹ For example, borrowings by state governments and associated entities from PSBs amounted to Rs. 4.13 lakh crore during FY2022–23. Even though PSBs provide

information about the quantum of lending to the state public sector entities (SPSEs), there are no details of the nature or terms of lending by states or entities.

Section A:

Background

1. Off-budget borrowings (OBBs) obscure the true fiscal position of governments, understating their liabilities and fiscal deficits. Governments often resort to OBBs due to the persistent and growing demand for subsidies, which constrains their available fiscal space. OBBs are also employed to finance capital expenditure and support public utilities in sectors such as transport, drinking water, and power distribution—areas that often suffer financial losses owing to non-remunerative pricing structures and operational inefficiencies.

2. Persistent reliance on OBBs increases fiscal opacity, inflates hidden deficits and debt, and heightens the risk of fiscal crises if not addressed. Such fiscal opacity can elevate the government's borrowing costs and undermine macroeconomic stability by discouraging private investment, thereby adversely affecting growth and employment generation.

3. To enhance transparency, the Union Government moved 93 percent of off-budget liabilities onto the budget. The Union Government had off-budget liabilities of nearly Rs. 4 lakh crore² by the end of FY2020. It has since incorporated Rs. 3.7 lakh crore, or 93 percent of these liabilities, into its balance sheet by FY2022. The remaining

liabilities are expected to be addressed, contingent on investor willingness to accept restructured term for bonds issued by entities such as the National Bank for Agriculture and the Rural Development (NABARD) and Housing and Urban Development Corporation (HUDCO). As per Statement 27 of the Union Budget, OBBs amounting to Rs. 1.37 lakh crore were recorded between FY2016 and FY2022, with nil reported thereafter. The Union Government has also ceased using OBB mechanisms for financing food and fertilizer subsidies, opting instead to allocate funds explicitly within the budget.

4. To curtail OBB proliferation at the state level, the Union Government has mandated the inclusion of OBBs within the state's debt calculations for setting the net borrowing ceiling (NBC).³ This measure has had a salutary effect, prompting some states to reduce their reliance on OBBs. However, this move has also sparked federal tensions, with several states contesting it as an overreach into their constitutionally protected fiscal autonomy. A case concerning these issues is currently pending before the Supreme Court.

5. The Fifteenth Finance Commission (XV FC) observed that for many states, despite

² Roughly around 2 percent of gross domestic product (GDP).

³ Under article 293(3) of the Constitution, all the states need the Union Government's consent to raise additional debt from the domestic market to bridge their fiscal deficits. The borrowing limit is fixed at 3 percent of GSDP as mandated by the Fiscal Responsibility and Budget Management Act (FRBMA) and the Finance Commission recommendations. The borrowing limit is relaxed by 0.5 percent beyond the 3 percent limit as an incentive, if the state has implemented power sector reforms defined on specified parameters. To this are added the state's total contribution to the new pension scheme and repayments made during the previous year. Any borrowing space saved in the past year is also added, while any overborrowing is deducted.

concerted efforts, comprehensive and reliable estimates of OBBs could not be established. Budget documents and financial accounts of states largely omit disclosures on OBBs. This lack of transparency persists despite earlier recommendations by the Fourteenth Finance Commission (XIV FC), which advocated for both the Union Government and state governments to report 'extended public debt' alongside the main budget, factoring in risks stemming from guarantees, OBBs, and the accumulated losses of financially weak public

sector enterprises (PSEs) (Para 12.8(iv), XV FC Report).

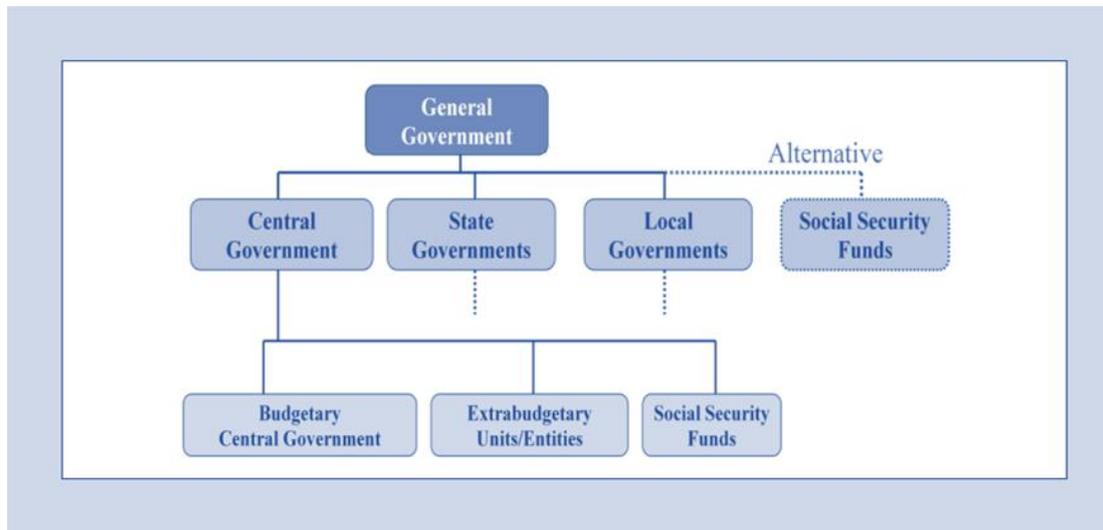
6. This paper seeks to systematically examine the prevalence, magnitude, and typologies of OBBs undertaken by state governments. The study aims to recommend actionable strategies to mitigate fiscal risks by designing a robust framework for OBBs reporting and disclosure, thereby enhancing fiscal transparency, accountability, and sustainability.

Section B: Defining OBB

7. Although the term ‘off-budget borrowings’ is widely used, its exact meaning can differ based on the definition adopted.⁴ The budget defines and captures upstream public sector activities and their financing sources, subject to legislative oversight and government control. Downstream, budget enforcement processes include expenditure commitments, revenue collection, financing activities, and other budget authorizations and obligations, including generic public financial management (PFM) procedures. All on-budget activities are included within the formal budget and are subject to standard budgetary oversight.

8. Off-budget public activities, in contrast, refer to operations organized separately, outside the authority and direct control of the legislature or government. The International Monetary Fund’s (IMF’s) Government Finance Statistics Manual (GFSM) 2014 uses the term extra-budgetary funds (EBFs) rather than off-budget borrowings and defines them as “general government entities with individual budgets not fully integrated into the main (or general) budget” (Figure 1). Under Government Finance Statistics (GFS) classifications, EBFs include public universities, research institutes, government boards, revolving funds, road funds, and regulatory bodies.

Figure 1: General government sector and its subsectors



9. In India, the terms OBB, EBF, and extra-budgetary borrowings (EBBs) are often used interchangeably. However, OBBs must be distinguished from EBBs/EBFs as the latter include a broader range of financing arrangements. Traditionally these

have included pension or social security funds, funds held by state-owned enterprises, and other discretionary or confidential funds. More recently, they have encompassed revenues from natural resource extraction, foreign aid, debt

⁴ Usually, a country’s PFM legislation would provide the overall framework defining the general government,

public sector activities, financing, expenditures, and so on. However, India does not have such legislation.

cancellation, privatization proceeds, and public-private partnerships (PPPs).⁵

10. The essential difference between OBBs and EBFs is that EBFs do not necessarily fund a government program or project (except where earmarked, such as infrastructure projects). Like OBBs, EBFs are typically managed by separate institutional entities distinct from government departments. Both OBBs and EBFs often evade key accountability and oversight mechanisms, such as⁶

- Parliamentary approval of the government's budget;
- Compliance with financial regulations applicable to government entities;
- Inclusion within government accounting systems;
- Disclosure of in-year or year-end financial reports; and
- Statutory audit by the Supreme Audit Institution (for example, CAG of India).

Examples of EBFs are provided in Annexure I.

11. OBBs can be defined as borrowings by public entities outside the government budget that finance government schemes, programs, or expenditures, where the repayment (principal and/or interest) is directly or indirectly supported by the government. Rather than the government itself borrowing, it authorized undertakings—such as public sector undertakings (PSUs) or special-purpose vehicles (SPVs)—to borrow from the market, often with explicit or implicit

government guarantees. These borrowed funds are used to fulfil government obligations such as food or fertilizer subsidies, pensions, or to implement flagship programs like housing, drinking water, or sanitation initiatives. Infrastructure projects, such as highways, railways, or irrigation systems, are common areas of such financing.⁷ Borrowing entities often lack independent revenues (for example, insolvent companies) or have insufficient revenues because they provide subsidized services (for example, power distribution utilities, road transport corporations). Loss-making government enterprises may also raise bonds backed by government guarantees to finance working capital requirements.

12. Classifying such borrowing is complex due to variations in their organizational purposes and governance frameworks across jurisdictions.⁸ However, the intent behind the borrowing and the existence of repayment support from government funds are critical markers. These transactions, while economically akin to budgetary expenditures, are excluded from government budget accounts and consequently escape the oversight and accountability frameworks applicable to formal budgetary transactions. OBBs are not disclosed in state government Finance Accounts and are not recognized as part of government liabilities. This leads to an understatement of revenue and fiscal deficits, effectively breaching fiscal consolidation targets set under the Fiscal

⁵ Guide to Transparency in Public Finance, Looking Beyond Core Budget, Extra-Budgetary Funds, International Budget Partnership.

⁶ Allen, Richard, and Dimitar Radev. 2010. *Extra-Budgetary Funds*. FAD, IMF.

⁷ The PSU or SPV or equivalent, in addition to being legally constituted/incorporated unit (as a company, corporation or a society), is also an independent economic entity. According to the GFSM 2014, the basic concept of an 'institutional unit' is that it is "an economic entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and transactions with other entities." The institutional unit is also characterized by a complete set of accounts, including a balance sheet of

assets, liabilities, and net worth. In the GFSM 2014, SPVs are classified as EBFs within the general government sector, while the PSUs are public corporation, controlled by the government. Both SPVs and PSUs are operating within the public sector at large.

⁸ In addition, the relationships between government and PSUs or SPVs may take multiple forms, financial or non-financial, which are close in nature to OBB, but not captured in this study. Tax exemptions awarded to off-budget entities would be one example; imposing certain pricing arrangements and/or suggestions on favorable wage levels of the PSUs would be another. Such instruments may not be explicitly linked to any OBB and, therefore, are outside the scope of this study.

Responsibility and Budget Management (FRBM) legislation. Furthermore, these borrowings are excluded from the calculation of a state's NBC, enabling states to accumulate unsustainable levels of debt outside formal borrowing limits.

13. For this report, OBBs are defined as borrowings by PSUs, SPVs, or similar instruments controlled by the central or state governments, where the funds finance activities that fall within jurisdiction

of the government and where repayment (principal and/or interest) is supported by the government—either through grants or by earmarking revenues (for example, escrowing specific revenues). The test of whether any borrowing qualifies as OBB is straightforward: if the government provides any repayment support to the borrowing entity, the borrowing is classified as OBB. This definition draws support from reports of the CAG of India.

Section C:

Analytical and Conceptual Framework for Selecting Sample States

14. Prescribing a reporting framework and disclosure standards first requires a thorough understanding of the mechanisms driving OBBs across Indian states, and a clear classification of transactions that qualify as OBBs. There may also be additional forms of transactions currently unrecognized as OBBs, which nonetheless heighten fiscal risks of the states. Issues of inaccurate fiscal reporting will be addressed separately.

15. The first step involved analyzing the size, trends, composition, and modes of raising OBBs across states. Although OBBs are present in almost every state, their scale varies significantly. To select a representative sample of states with sizeable OBBs, a set of criteria was developed based on literature review, secondary data analysis, and examination of state budget documents and other publicly available sources.

16. The framework is based on the assumption that states with higher

expenditure on subsidies or freebies are more likely to require additional off-budget resources to fund capital expenditure or other schemes. Accordingly, the share of subsidies has been used as a proxy indicator. The methodology adopted is outlined below.

17. Data on subsidies, expressed as a percentage of revenue expenditure and gross state domestic product (GSDP), was compiled for FY 2022 and 2023. (Table 1). However, Finance Accounts were unavailable for some states (for example, West Bengal for both years and Goa only for 2021–22), and GSDP data was unavailable for several northeastern states on the National Accounts portal. Where required, the most recent available year’s data was used. Given wider data availability, FY2022 has been adopted as the reference year for the analysis. The resulting ratios are shown in Table 1.

Table 1: Subsidy as a percentage of revenue expenditure and GSDP, sorted by FY2022

S. No.	Subsidy/Revenue expenditure (%)			Subsidy/GSDP (%)		
	State	2021–22	2022–23	State	2021–22	2022–23
1	Punjab	14.9	18.1	Punjab	2.3	3.1
2	Gujarat	13.9	14.3	Rajasthan	1.9	1.9
3	Karnataka	13.5	10.6	Madhya Pradesh	1.7	1.5
4	Rajasthan	11.1	11.6	Chhattisgarh	1.6	1.8
5	Madhya Pradesh	10.6	9.6	Bihar	1.6	2.0
6	Haryana	9.7	8.8	Jharkhand	1.6	1.0
7	Andhra Pradesh	9.2	11.4	Karnataka	1.4	1.0
8	Jharkhand	9.0	6.1	Andhra Pradesh	1.3	1.7
9	Chhattisgarh	8.8	9.7	Gujarat	1.2	1.2
10	Tamil Nadu	8.5	10.6	West Bengal	1.1	NA
11	Maharashtra	8.3	10.6	Haryana	1.1	0.9
12	Telangana	7.5	6.3	Tamil Nadu	1.0	1.3
13	West Bengal	7.0	NA	Uttar Pradesh	1.0	0.9
14	Bihar	6.4	8.1	Maharashtra	0.9	1.4

S. No.	Subsidy/Revenue expenditure (%)			Subsidy/GSDP (%)		
	State	2021-22	2022-23	State	2021-22	2022-23
15	Uttar Pradesh	6.0	5.6	Telangana	0.9	0.7
16	Odisha	4.3	3.0	Odisha	0.7	0.5
17	Himachal Pradesh	3.3	4.4	Himachal Pradesh	0.7	1.0
18	Kerala	2.8	1.3	Assam	0.5	0.3
19	Assam	2.4	1.6	Kerala	0.4	0.2
20	Goa	1.9	NA	Goa	0.3	NA
21	Mizoram	1.0	1.1	Manipur	0.3	NA
22	Manipur	0.9	0.8	Mizoram	0.3	NA
23	Tripura	0.8	0.9	Tripura	0.2	0.2
24	Uttarakhand	0.4	0.7	Meghalaya	0.1	0.1
25	Meghalaya	0.2	0.3	Nagaland	0.1	NA
26	Nagaland	0.2	0.2	Uttarakhand	0.1	0.1
27	Sikkim	0.0	0.1	Sikkim	0.0	0.0

Source: Finance Accounts of the states (for West Bengal, data for FY2021 has been used).

18. To validate the assumption, the top 10 states from the above list were selected and cross-verified with CAG reports on state finances for FY2022. Kerala and

Telangana were additionally included based on evidence of significant OBB volumes from CAG findings. Thus, a total of 12 states were selected for detailed analysis.

Section D:

Classification and Typology of OBBs

19. To classify and understand the typology of OBBs, the CAG reports on state and union government finances were reviewed. This study revealed that OBBs have been resorted to in a range of ways by the Union and states, as classified in Table 2.

Table 2: Cases flagged and reported by the CAG as OBB

S. No.	Description	Examples
1.	Government programs or schemes not budgeted but financed by subnational entities through borrowings guaranteed by the government	Funds raised by public entities through government guarantees, serviced by the state government (Andhra Pradesh and Bihar)
2.	Loans raised by public sector entities on their own strength to finance governmental schemes/programs due to government directives	Shortfall in budgetary resources for Pradhan Mantri Awaas Yojana – Gramin (PMAY-G) met by NABARD and financed through bonds fully serviced by the Central Government
3.	Loans raised by loss-incurring subnational entities, with government guarantees, for financing governmental schemes/programs/objectives, serviced by budgetary resources	Karnataka and Rajasthan
4.	Loans raised through ‘fully serviced bonds’ with direct servicing by the government	Union Government’s borrowing for HUDCO, National Highways Authority of India (NHAI), Indian Railway Finance Corporation (IRFC)
5.	Non-deposit of state levies into the Consolidated Fund	Escrowing a part of tax revenues to service borrowing by subnational entities (Kerala, Madhya Pradesh, and Andhra Pradesh)
6.	Arrears of claims raised but not paid during the year	Bill discounting by Kerala; Food Corporation of India (FCI) borrowing to cover arrears from the Union Government
7.	Advance receipt of future receivables from public entities	Advance freight receipts by Indian Railways

Note: Details of these cases are provided in **Annexure II**, covering both instances from the Union and states.

Section E:

Results of Analysis of 12 States

Credibility Issues in Reporting of OBBs

20. Data reveals notable inconsistencies in the reported OBBs across different sources. OBBs raised during FY2021–22 for 12 selected states were compared against OBBs officially reported by them⁹ (see Table 3). The data shows significant discrepancies:

some states like Tamil Nadu and West Bengal have underreported their OBBs, while others have overreported compared to figures reported by the CAG. These discrepancies indicate a lack of objectivity and credibility in the reporting process.

Table 3: Comparison of OBBs, 2021–22

State	OBBs	
	Reported by state	Reported by CAG
Telangana	35,257	20,858
Andhra Pradesh	6,287	No data
Tamil Nadu	594	12,357
Kerala	14,312	14,313
West Bengal	1,089	4,311 ¹⁰
Chhattisgarh	617	NA
Karnataka	2,350	2,350
Rajasthan	0	NA
Bihar	520	520
Haryana	21	22
Madhya Pradesh	534	576
Punjab	770	NA

Source: Finance Accounts, State Finances Audit Reports (SFARs), and Government RTI responses (footnote 7)

21. In summary, four states—Andhra Pradesh, Telangana, Kerala, and Tamil Nadu—heavily relied on OBBs from 2021 to 2023, representing 0.6 percent to 4 percent of their GSDPs (Table 4). Such levels significantly affect their fiscal deficit-to-

GSDP (FD/GSDP) ratios, potentially leading to breaches of FRBMA limits. Moreover, many of the entities responsible for OBBs lack independent revenue streams and are primarily involved in implementing government subsidy schemes. Annexure III presents detailed state-wise data analysis.

⁹

https://doe.gov.in/files/rti_services_documents/OBB_030624_1.pdf.

¹⁰ 2020–21.

Table 4: Off-budget borrowings: Stock and flow

State	2020–21		2021–22		2022–23	
	Liabilities	Raised	Liabilities	Raised	Liabilities	Raised
Andhra Pradesh	112,115	38,313	118,394	NA	128,047	35,114
Telangana	97,940	21,803	118,955	20,858	118,629	NA
Kerala	16,459	9,273	25,874	14,313	29,476	8,059
Tamil Nadu	15,369	14,735	27,670	12,357	2,299	NA
Madhya Pradesh	NA	1,255	2,322	534	2,887	564
Karnataka	18,421	3,045	16,682	2,350	17,306	4,029
West Bengal	1,085	4,311	NA	NA	NA	NA
Punjab	4,004	523	4,067	803	2,466	484
Haryana	406	NA	342	NA	279	22
Rajasthan	1,804	NA	1,581	NA	1,279	1,279
Bihar	—	—	1,483	520	1,203	687
Chhattisgarh	3,897	NA	3,873	NA	7,161	NA

Source: SFARs, CAG's SFARs, and state government data.

Absence of Independent Institutional Validation Mechanisms

22. The absence of an independent mechanism to verify reported OBBs raises concerns regarding their reliability and the potential for underreporting. The CAG's reporting of OBBs is primarily based on information provided by the respective

state governments. There is no independent institutional mechanism for verifying or validating these figures, raising concerns about their consistency, comprehensiveness, and accuracy. Many cases are either underreported or not reported at all.

Lack of Uniform Definition and Reporting Standards

23. Although the CAG has been reporting OBB figures in the SFARs, the absence of a clear and comprehensive definition has led to inconsistent identification and reporting across states. Typically, OBBs are considered as borrowings by sub-state entities (such as SPSEs, SPVs, or joint venture companies [JVCs]) serviced through the state's budget. However, there are instances—particularly, in the Union Audit Reports—where the CAG has expanded the scope to include arrears of revenue, advance receipts, and so on (see Box 1)

24. This definitional ambiguity has caused nonuniform practice. No standard audit protocol or reporting format exists, leading to wide variations among states. Some states (for example, Andhra Pradesh and Telangana) provide more detailed disclosures, while others offer minimal or ambiguous data.

25. Reporting inconsistency extends even to the nature of the data. Some states report outstanding stock of liabilities (for example, Andhra Pradesh, Telangana), while others report only the flow (for example, Madhya Pradesh). The absence of a standardized procedure makes it impossible to get a complete and accurate picture of the OBBs in state debt portfolios. For example, in the case of Chhattisgarh, FY2021 reporting made it unclear whether figures represented outstanding stock or flow. The CAG has revised figures retroactively in Andhra Pradesh and Telangana upon receiving updated data.

26. The lack of standardized recognition of OBBs often results in inconsistencies. For instance, in Telangana (FY2020), borrowings by 12 SPSEs were reported as Rs. 85,380 crore against total outstanding guarantees of Rs. 70,688 crore, but only the lower figure (guarantees) was taken as OBB.

In contrast, Andhra Pradesh correctly took the actual borrowings as the OBB figure even though they were lower than the guarantees.

Box 1: Illustrations of OBBs from CAG reports

Arrears of claims (unpaid claims) raised during a year but not paid: This was a frequent occurrence with the Union government till FY 2018 in respect of payment of subsidies to the FCI. CAG has flagged this as EBB in his Report no 6 of 2021 for Union Government.

“Case Study 7: Extra budgetary funding for Fertilizer Subsidy For the years 2017-18 and 2018-19, the carry forward liability on account of fertiliser subsidy was Rs 26,182.80 crore and Rs 32,488.54 crore respectively. Non-clearance of subsidy claims in full, resulted in understatement of revenue expenditure and of RD. In addition, in the two years Department of Expenditure approved Special Banking Arrangements (SBA) of up to Rs 7,000 crore and Rs10,000 crore respectively, to enable Fertiliser Companies to meet their liquidity requirements and also partially bore the interest cost for the same. This was tantamount to extra budgetary funding of subsidy payments. Ministry contended (June 2020 and December 2020) that SBAs were a tool for managing liquidity. However, the fact was that the Government had to facilitate funding from extra budgetary resources as it did not make adequate budgetary resources available for the purpose.” (CAG Report no 6 of 2021 for Union Government, Page 30).

Advance receipt of future receivables from subnational entities: Against BE of Rs.12,990 crore, the ‘Net Surplus’ of Indian Railways was Rs.3,774 crore in 2018-19. However, the net surplus increased from Rs.1,666 crore in 2017-18 to Rs.3,774 crore in 2018-19. During the year, IR received advance freight of Rs.8,351 crore from NTPC and CONCOR for transportation of goods in 2019-20. IR would have ended with a negative balance of Rs.7,335 crore instead of surplus of Rs.3,774 crore but for receipt of advance freight. (CAG Report No. 8, FY 2020, Union Govt., Railways, Page 17, 25).

27. OBB is primarily raised through loans from subnational entities. As illustrated in Table 5, the principal method of raising OBB continues to be loans contracted by

subnational entities (PSUs/SPVs) against government guarantees, with servicing obligations met through budgetary resources.

Table 5: Composition of OBB liabilities across categories for FY2022-23 (Rs crore)

State	Loans raised by PSUs/SPVs serviced by government	Non-deposit of state revenues in Consolidated Fund/escrowing of future revenues	Loans raised by PSUs/SPVs without own revenues (with government guarantees/services)	Total
Andhra Pradesh	42,879	21,450	63,718	128,047
Telangana	72,488		46,141	118,629
Kerala	11,733	17,743		29,476
Tamil Nadu (FY2022)	27,670			27,670
Madhya Pradesh		2,887		2,887
Karnataka	17,30			17,306
West Bengal (FY2021)	4,311			4,311
Punjab	2,466			2,466
Haryana	279			279
Rajasthan	1,279			1,279
Bihar	1,203			1,203
Chhattisgarh	7,161			7,161

Escrowing of Future Revenues and Imposition of Cesses

28. Several states are using future revenue streams to secure loans for PSEs.

In several states (for example, Andhra Pradesh, Kerala, and Madhya Pradesh),

future revenue streams—both tax and non-tax—have been escrowed to secure loan repayments raised by PSEs. Some states have also imposed dedicated cesses for this

purpose (for example, Cess on Stamp Duty by Madhya Pradesh and Road Development Cess by Andhra Pradesh). However, escrowing revenues outside the Consolidated Fund violates Article 266 of the Constitution, which mandates that all

revenues raised or received by the government must be credited to the Consolidated Fund. Any deviation from this not only breaches constitutional requirements but also undermines fiscal transparency and accountability.

Missing Data Trail in Some Cases

29. Alarming, there are cases where OBB data trails have disappeared without explanation. In Telangana, for instance, six entities previously reported borrowings on behalf of the government. However, in FY2022, these entities reported nil OBB liabilities—despite the continued existence of government guarantees worth Rs. 35,667 crore and direct government loans of Rs. 3,916 crore for debt servicing. The abrupt disappearance of such large liabilities remains unexplained. Consequently, the CAG adopted the latest available figure of Rs. 32,351 crore as Telangana’s reported OBBs.

30. In several states (for example, Maharashtra), the SFARs and Finance Accounts prepared by the CAG do not disclose any OBBs. However, absence of disclosure does not equate to absence of liabilities. In response to a Finance Commission questionnaire, the Principal Accountant General (AG) (Audit-I), Maharashtra, reported OBB liabilities of Rs. 10,135 crore at the end of FY2024 (including Rs. 7,700 crore raised during the year), with a projected increase to Rs. 15,573 crore at the end of FY2025. Thus, where evidence is missing, it must not be presumed that liabilities do not exist.

Opacity Resulting from Indiscriminate Use of Minor Head 800

31. The widespread use of the omnibus accounting head ‘Minor Head 800’ under revenue and capital expenditure items significantly obscures financial transparency. Despite the availability of specific minor heads, many states continue

to route large expenditures through Head 800, making it difficult to identify the nature of such spending. The issue may also have a bearing on the understatement or masking of OBBs, as some of these expenditures may essentially represent grants to SPVs or PSEs.

Table 6: Expenditure booked under Minor Head 800 in FY2022-23

S. No.	State	Amount (Rs crore)	% of total expenditure
1	Madhya Pradesh	36,880	15.09
2	Tamil Nadu	39,665	14.72
3	Andhra Pradesh	24,738	11.86
4	Chhattisgarh	7,715	8.22
5	Haryana	9,489	8.04
6	Karnataka	15,965	5.85
7	Kerala	7,248	4.65
8	Punjab	5,309	4.41
9	Rajasthan	10,205	4.27
10	West Bengal	6,706	3.51
11	Maharashtra	15,885	3.35
12	Telangana	2,154	1.26
13	Bihar	252	0.12

Inadequate Accounting of Loans to PSUs and SPVs

32. The accounting of loans extended to state PSUs and SPVs remains weak.

Although the AG's office maintains records, many accounts are incomplete due to missing vouchers, non-availability of government orders, and frequent misclassification. This problem is compounded by chronic delays in the finalization of PSU accounts—a pervasive issue across states.

State governments do attempt reconciliation with AG records, but mutual incompleteness undermines reliability. Moreover, independent records maintained by the states often suffer from the same defects. As a result, the exact quantum of outstanding loans and associated OBBs remains indeterminate, significantly impeding fiscal analysis and raising concerns over hidden liabilities.

Section F:

Further Attempts at Data Analysis and Results

33. To assess the extent of data availability with both the State AGs and the respective state governments, a set of state-specific questionnaires was developed. These questionnaires were circulated to the states through the Finance Commission. Responses were received from three state governments—Bihar, Haryana, and Kerala—and from the AGs of 12 states, namely, Andhra Pradesh, Telangana, Karnataka, Kerala, Tamil Nadu, Maharashtra, Chhattisgarh, Rajasthan, Gujarat, Jharkhand, West Bengal, and Madhya Pradesh. Among the state governments that responded,

Kerala reported nil OBBs for all years, which is inconsistent with the previously reported significant volume of OBBs (Table 3 and Table 4). In contrast, Haryana and Bihar confirmed figures consistent with earlier observations. Responses from the AGs were broadly aligned with data reported in their respective SFARs. These have already been incorporated into Table 4. Based on these responses, the updated status of OBB liabilities for the states as of the end of FY2024 is presented in Table 7.

Table 7: OBB liabilities at the end of FY2024

S. No.	State	OBB liabilities (Rs crore)	GSDP (Rs crore)	OBB liabilities as % of GSDP	OBBs raised during the year (Rs crore)
1	Andhra Pradesh	140,470	1,291,518	11	NA
2	Telangana	120,944	1,361,395	9	2,303
3	Kerala	32,942	1,013,641	3	10,632
4	Karnataka	13,478	2,261,867	1	NA
5	Maharashtra	10,135	3,524,281	0	7,700
6	Chhattisgarh	7,293	447,682	2	843
7	Tamil Nadu	3,919	2,426,970	0	1,672
8	Punjab	3,630	744,399	1	1,675
9	Madhya Pradesh	3,186	1,363,327	0	374
10	Haryana	202	985,877	0	NA
11	West Bengal	12	1,531,371	0	NA

34. The Government of Madhya Pradesh projects an increase in total OBBs, primarily due to new borrowings for urban infrastructure, water supply, and irrigation projects. The government has provided updated details regarding its OBBs, including projections for FY2024–25. As per the data, the total OBB liabilities are expected to increase from Rs. 3,186 crore at the end of 2023–24 to Rs. 4,470 crore by the close of 2024–25, reflecting additional borrowings of Rs. 1,285 crore during the year. Of the new borrowings, Rs. 1,204 crore

has been raised by the Madhya Pradesh Urban Development Corporation (MPUDC) and Rs. 6 crore by the Urban Administration and Housing Department (UAHD). These loans are proposed to be serviced by 2 percent cess on stamp duty collected within urban local body (ULB) jurisdictions, credited to the Stamp Duty Surcharge Fund, a designated Reserve Fund in the public account. Separately, Rs. 75 crore has been raised by Narmada Basin Projects Co. Ltd, a state government undertaking, to be serviced through non-tax revenue receipts—

specifically, dividends from Narmada Hydroelectric Development Corporation Limited (NHDC) and energy charges collected from the Sardar Sarovar Project (SSP). Escrowing government revenue streams for debt servicing is an established practice in Madhya Pradesh, intended to enhance repayment security. However, while such mechanisms mitigate credit risk, they do not

entirely eliminate contingent liabilities for the state exchequer. The borrowed funds are primarily allocated for financing the Chief Minister’s Urban Infrastructure and Development Scheme (Phases II and III), Mukhya Mantri Shari Peya Jal Yojna (MMSPY), and multiple irrigation projects under the Narmada Valley Development Authority (NVDA).

Significant Lending by PSBs to State PSUs/SPVs

35. Public sector banks (PSBs) and government-owned financial institutions such as NABARD, HUDCO, and REC are the principal lenders to state PSUs and SPVs.

These entities frequently service their borrowings using grants and loans received from state government budgets. It is therefore important to identify the primary lenders backing the OBBs of these entities—particularly those supported by government

guarantees—and examine the financial statements of PSBs and financial institutions to assess disclosure practices. Analysis of responses to parliamentary questions in the Lok Sabha concerning the outstanding debt of states and union territories reveals that substantial borrowings by state PSUs and corporations from PSBs occurred during the three-year study period.¹¹ Table 8 presents the borrowing trends.

Table 8: Borrowings from PSBs

FY	Amount borrowed from PSBs (Rs lakh crore)
2023	4.12
2022	4.93
2021	3.98
2020	3.11
2019	2.51

36. Canara Bank and Central Bank of India increased loan disbursements, while State Bank of India (SBI) and Punjab National Bank (PNB) reduced theirs in FY2023. Among PSBs, Canara Bank notably scaled up its loan disbursements to state-owned entities, increasing from Rs. 1.69 lakh crore in FY2022 to Rs. 1.87 lakh crore in FY2023. Similarly, Central Bank of India more than doubled its disbursements, from Rs. 1,475 crore in FY2022 to Rs. 3,949 crore in FY2023. Conversely, several major banks moderated their exposure.

SBI’s disbursements declined from Rs. 81,735 crore in FY2022 to Rs. 66,523 crore in FY2023, while PNB reduced its lending from Rs. 96,395 crore to Rs. 70,142 crore during the same period. Detailed figures are given in Annexure IV.

37. The moderation in PSB lending to state-owned entities between FY2022 and FY2023 may be partly attributed to the Reserve Bank of India (RBI).

In June 2022, the RBI issued a directive to commercial banks, highlighting breaches of prudential lending norms with respect to companies owned by states and union territories. Specifically, the RBI flagged deficiencies in assessments of commercial viability,

¹¹ [Microsoft Word - LSSQ no 55 for 24.07.2023- English](#)

evaluations of project-specific revenue streams, and monitoring of fund utilization. Banks were instructed to strengthen due diligence processes, ensuring that projects

generate sufficient cash flows to meet debt servicing obligations independently, without reliance on budgetary support.¹²

Recommending Additional Disclosures of Loans Given to State PSUs/SPVs in PSB and Financial Institution Accounts

38. Granular disclosure of lending to SPSEs is considered crucial for fiscal transparency and identifying off-budget risks at the state level, which may necessitate regulatory action by the RBI. A review of PSB financial statements reveals that while aggregate lending to SPSEs is reported, there is no requirement of stating the disaggregated, entity-wise or state-wise lending which may specify the nature of lending, repayment mechanisms, or underlying security structures. Such granular disclosure may be helpful for ensuring fiscal transparency, enabling the identification of off-budget fiscal risks that may otherwise remain obscured. Specific regulatory instructions issued either by the RBI or Department of Financial Services (DFS) can help institute such detailed reporting standards across the banking sector (for lending to the public sector). These may be limited to reporting to the Government of India (GOI), RBI, and DFS (if not made public).

39. Non-PSB lenders like NABARD and HUDCO exhibit inconsistent disclosures on state public sector loans, lacking detail on loan purposes and projects. Among non-PSB lenders, institutions such as NABARD, HUDCO, PFC, REC, IRFC, and NHA have occasionally been mentioned in CAG reports and other oversight documents. However, an examination of their accounts over the past three years, as well as for earlier periods, revealed no consistent disclosures regarding loans extended to SPSEs. A review of RBI circulars, institutional annual reports, and financial statements highlights the lack of uniformity in disclosure

practices across these financial institutions. For example, NABARD's Annual Report provides detailed information on the nature and description of various lending categories, whereas REC's Annual Report discloses state-wise public sector lending without specifying the nature of the projects or purposes for which loans were granted. Specifically, NABARD's Consolidated Financial Statements (Page 259) present a broad classification of advances into Refinance Loans, Investment Credit, Direct Loans, and Other Loans, along with brief descriptions of each. However, there is no state-wise segregation of this data. In contrast, REC discloses state-wise lending information (for example, Page 17 of REC's Annual Report), but its financial statements merely classify loans as secured or unsecured under the Indian Accounting Standards (Ind AS) framework, without providing any project-specific details.¹³ Similarly, HUDCO's Annual Report contains disclosures limited to risk grading and sectoral breakdowns of public sector loans, without deeper insights into the nature or purpose of the loans extended.¹⁴

40. The Finance Minister's response to Lok Sabha Question No. 55 provided limited details on NABARD's loans to state entities. Further information was obtained from the Finance Minister's reply to Lok Sabha Question No. 55,¹⁵ which provided limited data on loans disbursed by NABARD to state entities and corporations. However, it is important to note that not all of these loans necessarily constitute OBBs, and no further clarification is available regarding which loans qualify as such. State-wise and

¹² [Public sector banks' lending to state govt units down 20% in FY23 | Finance News - Business Standard](#)

¹³ [NABARD Annual Accounts 2023-24](#)
[REC Annual Report 2023-24](#).

¹⁴ [HUDCO Annual Report 2022-23](#)

¹⁵ [Microsoft Word - LSSQ no 55 for 24.07.2023- English](#)

program-wise details of NABARD's loan disbursements, as extracted from the

Finance Minister's response, are summarized in Table 9.

Table 9: State-wise and program-wise disbursal of loans by NABARD to state corporations/entities

		2021-22	2022-23	2023-24
1	NABARD Infrastructure Development Assistance (NIDA)	7,501	7,136	6,329
2	Fisheries and Aquaculture Infrastructure Development Fund (FIDF)	194	172	226
3	Credit Facility to Federations (CFF)	47,853	46,434	31,437
4	Rural Infrastructure Development Fund (RIDF) - Details of amount contributed from RIDF	29,193	33,883	37,317
5	Long Term Irrigation Fund (LTIF)	3,601	2,413	3,069
6	Micro Irrigation Fund (MIF)	1,827	256	432
7	Warehousing Infrastructure Fund (WIF)	909	594	461
8	Food Processing Fund (FPF)	27	70	124

Source: Finance Minister's Reply to Lok Sabha Question No *55 dated 24.07.2023.

41. The lack of standardized and detailed disclosure formats among financial institutions complicates the process of reconciling their reported data with figures provided by state governments.

This disparity leads to the absence of corroborative and reliable datasets regarding public sector lending activities undertaken by banks and financial institutions.

Even where state-wise data is available—such as in REC's disclosures—the absence of project-specific information prevents accurate reconciliation of OBBs as recorded in SFARs/Finance with the figures reported by financial institutions. This limits the ability to assess the fiscal impact of such borrowings comprehensively.

Section G:

Other Fiscal Risks Related to Items Not Included in OBBs

42. Other fiscal risks arise from governments' use of cash-based accounting system. The preceding analysis is confined to borrowings explicitly backed by government guarantees and serviced through budgetary allocations. However, governments frequently leverage the cash-based accounting framework to mask fiscal obligations, thereby undermining fiscal transparency and discipline while exposing state finances to heightened risks. The XV FC highlighted this concern, noting that "a significant amount of off-budget expenditure remains subject to nuanced legal interpretations and thus escapes the conventional measurements of deficit and debt" (para 12.73, XV FC Report). Proactively flagging such issues is crucial to promoting greater fiscal accountability. To assess the materiality and fiscal risk arising from such practices, a focused review was undertaken for two states—Andhra Pradesh and Telangana. The analysis identified categories of transactions, as reported by the CAG of

India that led to the understatement of revenue and fiscal deficits. While the CAG refrained from explicitly categorizing these as OBBs, their nature clearly aligns with OBB characteristics. The identified categories are as follows:

- Inadmissible expenditure from designated reserve funds
- Non-transfer of cesses to designated boards
- Shortfall in contributions to reserve funds
- Non-discharge of debt servicing obligations (including interest payments on borrowed funds)
- Misclassification of expenditures.

43. Table 10 presents a detailed breakup of the identified transactions. It is evident that the amounts involved are significant—particularly in the case of Telangana. Moreover, given data limitations and opacity in disclosures, it is likely that not all cases have been captured.

Table 10: Detailed breakup (Rs crore)

	2019-20	2020-21	2021-22
Andhra Pradesh			
Inadmissible expenditure from reserve funds ¹⁶	1,100	1,100	1,100
Non-transfer of cess to boards	300	372	—
Misclassification	—	568	1,252
Total	1,400	2,040	2,352
Telangana			
Short contribution to designated funds in public account	1,058	1,696	2,428
Non-discharge of debt service obligations	5,286	8,505	8,474
Misclassification	—	59	1,000
Total	6,344	10,260	11,902

¹⁶ During 2019-20, the State Government transferred Rs. 1,100 crore to the Personal Deposit Account of Directorate of Agriculture, Andhra Pradesh, by showing expenditure under Major Head 2245 - Disaster Relief and Rehabilitation toward payment of input subsidy to farmers for kharif as gratuitous relief.

44. The figures provided in Table 10 are not complete, as transactions lacking sufficient information have been excluded. For example, the CAG reported a misclassification of Rs. 4,379 crore in FY2020 between revenue and capital expenditure without providing sufficient disaggregation. Consequently, its precise impact on the fiscal deficit could not be determined.

45. Improper management of financial cesses and liabilities undermines the integrity of fiscal reporting, necessitating stricter compliance and enhanced governance. Failure to transfer collected

cesses to designated funds and deferment of committed liabilities (such as shortfalls in contributions to the National Pension System, Sinking Funds, and Redemption Funds) not only results in the understatement of deficits but also adversely affects the transparency and integrity of financial reporting. Such practices undermine the credibility of budget documents and impede effective fiscal planning. Enhancing reporting standards, ensuring strict compliance with fund transfers, and mandating full disclosure of off-budget liabilities are critical for improving fiscal governance (refer to Box 2).

Box 2: CAG: Non-transfer of cess to its purpose impacts fiscal deficit

CAG has flagged the non-transfer of Construction Workers Welfare Cess and Road safety Cess to the respective Boards in Bihar amounting to Rs.162 crore as having an impact on Fiscal Deficit (**CAG's SFAR, Bihar, FY 23**) and Non-Transfer of Green Energy Cess to Green Energy Fund (**SFAR, Uttarakhand, FY 22**) and considered these as impacting the fiscal deficit. CAG had also earlier reported that the Centre had retained in the Consolidated Fund of India more than Rs.1.1 lakh crore out of the almost Rs.2.75 lakh crore through various cesses till FY 19, instead of transferring the receipts to the specified Reserve Funds that Parliament had approved for such levies. CAG reported short transfer of cesses / levies in the case of Road and Infrastructure Cess (Rs.10,157 crore), GST Compensation Cess (Rs. 40,806 crore), Universal Access levy (Rs.2,123 crore) and National Mineral Trust Levy (Rs. 79 crore). These short transfers resulted in understatement of RD/Fiscal deficit during these two years. (**CAG's Report no. 6 of 2021, FY 19, Union Govt**).

46. Failure to discharge debt service obligations, including interest payments on interest-bearing public account funds, results in the artificial suppression of fiscal deficits. The CAG has observed multiple instances where states did not discharge their interest obligations, such as non-payment of interest on reserve funds as well as deposits and advances (SFAR, Uttarakhand, FY2022–23).

47. Misclassification of revenue and expenditure also distorts fiscal deficit reporting. In several cases, funds booked under the public account are transferred to the Consolidated Fund of the State and incorrectly recorded as revenue receipts. This practice inflates revenue receipts and understates the revenue deficit while simultaneously understating the actual borrowings for the year, thereby circumventing the annual NBCs. Additionally,

grants-in-aid are sometimes incorrectly classified under the capital section instead of revenue, and major works are booked under revenue instead of capital (SFAR, Uttarakhand, FY2021–22). To promote greater transparency, it is advisable to limit misclassifications within a predefined threshold.

48. Implicit subsidies—arising from the non-collection or under-collection of user charges—represent a significant loss of non-tax revenue. Such revenue forgone must be explicitly disclosed in government accounts. For instance, in FY2022–23, the Government of Bihar provided an implicit subsidy of Rs. 7,801 crore to power utilities due to non-recovery of costs. Although this amount was not classified as an OBB by the CAG, it increases the fiscal deficit and, therefore, should appropriately be treated as OBB.

Urgent Need for Reforming the Chart of Accounts

49. The urgent need to update the chart of accounts (CoA) is emphasized by ongoing issues and repeated recommendations from Finance Commissions for reforms in government accounting practices. These recurring issues highlight the urgent need to modernize the CoA—the system of classification of government receipts and expenditure. Despite repeated recommendations by successive Finance Commissions, including the XII FC and XV FC, substantial reforms remain pending. The XII FC recommended a phased transition toward accrual-based accounting and suggested the interim disclosure of additional financial statements alongside the Finance Accounts. The XV FC reiterated the need for enhanced, standards-based financial reporting and emphasized three key reform areas: **(a)** aligning government accounting with internationally accepted accounting standards through an independent standard-setting body and progressively transitioning from cash to accrual-based accounting; **(b)** strengthening executive

accountability for financial management; and **(c)** establishing clear timelines for account finalization, audit completion, and legislative submission.

50. The modernization of India's CoA is essential for aligning with international standards, enhancing transparency, and improving financial governance. The current CoA, last comprehensively revised in 1987, does not align with international standards such as the United Nations' Classification of the Functions of Government (COFOG) or the IMF's GFSM. Although the Sundaramurthy Committee was appointed by the GOI in 2016 to revise the CoA, meaningful progress has yet to be made, either in updating the CoA or transitioning to accrual-based accounting—both of which are interlinked reforms. Modernizing the CoA in line with international best practices would significantly enhance transparency, reduce misuse of the public account, and address issues related to OBBs.

Section H:

Suggesting a Reporting Framework

51. India needs a consolidated Public Sector Accounting System to enhance transparency and accountability in state finances and OBBs. Despite the presence of fiscal rules such as the FRBMA and requirements for reporting contingent liabilities, India lacks a consolidated Public Sector Accounting System. This absence has led to inconsistencies in raising and reporting of OBBs by states. Over time, OBBs have evolved into a quasi-permanent source of funding for states, circumventing budgetary discipline. There is an urgent need to establish a coherent, fiscally sustainable, and transparent framework that comprehensively captures state finances, including all off-budget activities.

52. The inconsistency in reporting contingent liabilities and OBBs by states undermines fiscal transparency and oversight, as emphasized by the RBI. In its report, *State Finances: A Study of Budgets*, the RBI points out that there is no standardized method for reporting these liabilities and borrowings by states, which is crucial for

International Good Practices

54. India should aim for full public sector consolidation to improve transparency and fiscal discipline despite the challenges posed by complex federal structures. Globally, governments often engage in expenditures beyond budget allocations, especially where financing responsibilities are shared across levels of government and PSEs. While such practices are not uncommon, leading fiscal frameworks—including the GFS and International Accounting Standards (IAS)—recommend full public sector consolidation to ensure transparency. Although achieving full consolidation is complex in the Indian federal structure, incremental reforms can

ensuring fiscal transparency. The RBI further emphasized that “consistent reporting would enhance fiscal transparency and discipline, potentially lowering borrowing costs.” Although the CAG publishes data on states’ OBBs, these disclosures lack standardization across states, hampering comparability and fiscal oversight.

53. Karnataka’s 2014 fiscal responsibility legislation amendment to include PSU and SPV borrowings in total liabilities can serve as a model for improving fiscal reporting in other states. A notable domestic example comes from Karnataka, which amended the Karnataka Fiscal Responsibility Legislation Act in February 2014 to broaden the definition of total liabilities (Section-2(g)). The revised law now includes borrowings by PSUs and SPVs. Karnataka’s model offers a replicable template for other states to enhance the comprehensiveness of fiscal reporting and strengthen budgetary control.

significantly enhance transparency and fiscal discipline.

55. International standards require governments to report on various financial liabilities, and India could improve its monitoring of quasi-fiscal activities by adopting a similar framework. International standards, such as those followed by Eurostat, require governments to report on guarantees, off-balance sheet liabilities from PPPs, liabilities of public corporations outside general government, and nonperforming loans. These practices ensure a comprehensive view of fiscal risks. India could adopt a similar reporting architecture to better monitor

quasi-fiscal activities and contingent liabilities.

56. A broader coverage of expenditures in fiscal deficit calculations promotes fiscal sustainability. While some countries exclude certain cyclically sensitive items (for example, unemployment benefits) or interest payments, critical areas like subsidies must remain within deficit computations. In India, subsidy arrears have created fiscal risks and hidden liabilities. Therefore, subsidy expenditures must be transparently reported and fully incorporated into deficit calculations to close fiscal loops and reinforce accountability.

57. To enhance fiscal oversight, reviewing budget assumptions annually and publishing a statement of net transfers to public sector entities as an annex to the Union Budget and state budget would improve transparency. At present, India lacks consolidated financial statements covering the entire public sector. The frameworks offered by the IMF Fiscal

Transparency Code and the GFS manuals provide useful blueprints. A medium-term strategy to initiate consolidated fiscal reporting would also help accelerate the finalization of public sector accounts, an area where significant delays persist across states.

58. The effectiveness of fiscal management in India can be enhanced by harmonizing accounting and reporting standards across states through a collaborative and incentivized approach. The quality of PFM systems—particularly in accounting coverage and standards—underpins the effectiveness of fiscal management and federal fiscal rules. International practice shows that national coordination on accounting and reporting standards, even in federations like the United States, supports better transparency without mandating uniform standards. India should work toward harmonizing basic accounting and reporting norms across states through a collaborative and incentivized approach.

CAG's Suggestions on Separate Reporting on Off-Budget Financing

59. As a practical and immediate step toward achieving comprehensive public sector fiscal transparency—pending the eventual consolidation of public sector fiscal statistics as recommended by the CAG in his 2018 report¹⁷—a separate reporting mechanism for OBF should be instituted. To operationalize this, governments must establish a policy framework for OBF, incorporating mandatory disclosure to legislatures of the following elements:

- **Rationale and Objectives:** Clear articulation of the need for OBF, including the objectives served by each instance.
- **Quantum and Budgetary Support:** The amount of OBF raised and any

corresponding budgetary allocations for the same project, scheme, or program.

- **Instruments and Sources of Financing:** Details of the financial instruments used and the sources from which funds are mobilized.
- **Debt Servicing Strategy:** The proposed means and strategy for servicing the debt arising from OBF.
- **Annual Summary:** A comprehensive account of all OBF activities undertaken during a financial year, including those conducted by entities substantially owned by the government.
- **Disclosure in Official Documents:** Mandatory inclusion of OBFs in disclosure statements attached to the Annual Budget as well as the Annual Accounts.

¹⁷https://www.cag.gov.in/uploads/download_audit_report/2018/Report_No_20_of_2018_Compliance_of_the_Fisc

[al_Responsibility_and_Budget_Management_Act_2003_Department_of_Economic_Affairs_Minis.pdf](#)

Recommended Reporting Framework for OBBs

60. Building upon the above, the following reporting framework for OBBs is recommended. In accordance with Article 150 of the Constitution, the CAG can require state governments to adopt the following disclosure norms in their budget documents and Annual Accounts:

- a. A statement detailing all guarantees provided to state-owned PSUs and other entities, clearly indicating the purpose for which each guarantee was extended
- b. A statement of all grants and loans extended to PSUs and other entities, with a separate indication of their intended use
- c. A statement listing all state tax and non-tax revenues, if any, that are collected but not deposited into the Consolidated Fund of the State

- d. A statement quantifying revenue forgone due to the waiver of state dues from all sources, categorized by type and amount
- e. A comprehensive statement showing the quantum of OBBs raised during the year, the total outstanding liability from all OBBs, the ratio of these liabilities to the state's GSDP, and the annual interest liability incurred on these outstanding obligations.

61. Lending institutions should also be required to disclose, in a separate statement, the details of all state entities to which they have lent funds based on state government guarantees. This disclosure should also specify the mode and schedule of repayment for each borrower.

Suggested Format for Reporting the Above

1. Statement of guarantees serviced by the state government:

Entity guaranteed	Amount of guarantee	Outstanding guarantee	Purpose of the guarantee

2. Statement of grants and loans given to state public sector entities for repayment of their loans:

Amount	Grants or loans	Details of repayment for loans/grants are given

3. Statement of state tax and non-tax revenues which are outside the Consolidated Fund of the state:

Source of revenue	Amount	Justification for exclusion from the Consolidated Fund

4. Statement of revenue forgone due to waiver of state dues:

Specify the revenue forgone	Amount forgone	Rationale for waiver

5. Disclosure of OBBs raised during a year and liabilities outstanding:

Financial Year	Opening OBB liability	OBBs raised	OBB principal repaid	Closing OBB liability	OBB as % of GSDP	Interest repaid	Public disclosure (Yes/No). Please provide details
2020-21							
2021-22							
2022-23							
2023-24							

Additional Disclosures

a. Entities receiving guarantee to raise loans (for each financial year, separately for each entity):

Name of the assisted entity	
Entity type (PSU/SPV/JVC, etc.)	
Nature of primary operations	
Primary revenue source	

b. Year-wise financial details of entities:

FY	Profit (+)/Loss (-)	Net worth	Accumulated profit/loss	Outstanding debt	Outstanding loans repayable to state	Guarantees by state	Total state assistance		
							Nature of assistance (Grants/Loans/Investment/Guarantee)	Amount	Purpose
2020-21									
2021-22									
2022-23									
2023-24									

c. Loan-wise disclosure of state assistance for debt servicing:

FY	Outstanding loan	Repayment during year (principal + interest)	State assistance to repay the loan during the year	Purpose of the loan	Primary repayment source (operational revenue/state assistance/earmarked revenue sources (cess/tax, etc.)/others)	State guaranteed (Yes/No)	Lender name
2020-21							
2021-22							
2022-23							
2023-24							

62. For institutional lenders such as PSBs, financial institutions, and government companies, relevant regulatory or supervisory authorities may advise on state-wise disclosure norms for loans extended to SPSEs. This ensures transparency in credit risk exposure at the subnational level.

Annexure I:

Examples of EBFs

- a. **Natural Resource Funds.** Countries with abundant natural resources—oil or diamonds, for example—may establish EBFs to address the volatility of resource-based revenues. Such funds serve either to stabilize government income during downturns or to save and invest for future generations, recognizing the exhaustible nature of these resources. In designing such funds, robust governance frameworks and transparent reporting are critical to avoid misuse and to ensure intergenerational equity.
- b. **Donor Aid Management Funds.** In several aid-dependent countries, a substantial proportion of donor-financed projects are implemented outside of core government budget systems. As a result, these projects often operate through extra-budgetary channels. According to recent data, more than half of official development assistance bypasses national budgetary frameworks. This limits transparency and weakens parliamentary oversight, as these resources are not systematically reported in budget documents. Strengthening integration of donor funds into national systems can enhance accountability, improve policy coherence, and align aid with domestic priorities.
- c. **Earmarked Funds.** These are dedicated funds linked to specific revenue streams and designated for particular expenditures—for example, road development or research and innovation. While earmarking can protect funding for strategic sectors, it often dilutes the principle of budget unity. Moreover, these funds may draw revenue from sources only tangentially related to the services they support, thereby weakening the efficiency of public expenditure. This misalignment can obscure the link between the cost of a service and its funding source, potentially distorting fiscal priorities.
- d. **Department Fees and Service Charges.** Some government departments retain earnings from user fees or cost-recovery mechanisms—such as fees for medicines in public health facilities—without remitting them to the Consolidated Fund or Treasury. Although such practices may incentivize service delivery improvements, they also reduce fiscal transparency. Additionally, in the case of public goods, where consumption is non-excludable, the price-service linkage becomes inherently weak, raising concerns about equity and access.
- e. **Stabilization Funds.** These funds are designed to cushion the impact of revenue volatility on the broader economy, especially in sectors exposed to cyclical or external shocks (for example, oil revenues). By smoothing revenue flows, stabilization funds can support macroeconomic stability and fiscal sustainability. However, to be effective, they must be governed by clear rules on accumulation and withdrawal, and should be integrated with the overall fiscal policy framework.
- f. **Sinking Funds.** These funds are established to accumulate resources over time for the explicit purpose of debt repayment. Typically funded through designated taxes or levies, they provide a structured mechanism for meeting future liabilities.
- g. **Miscellaneous Extra-Budgetary Accounts.** These include a wide variety of accounts operated outside the formal budget framework, such as secret funds managed by ministries or special-purpose entities. Often hypothecated for specific uses by ministers or high-ranking officials, such funds pose significant risks to transparency and accountability.

Annexure II:

Classification and Typology of OBBs

The OBBs can be grouped under the following categories:

A. **OBBs financed by subnational entities with government guarantees.**

This is the most prevalent mechanism for raising OBBs across Indian states. It involves subnational entities (for example, state-owned enterprises) borrowing funds based on guarantees provided by the state governments, without routing these borrowings through the formal state budget.

- **Andhra Pradesh:** Till FY2022, the government raised OBBs worth Rs. 1.18 lakh crore through its guarantees given to 30 SPSEs and incurred Rs. 11,332 crore for the debt servicing of its OBBs. The outstanding liability on account of OBBs of the state government was Rs. 1.18 lakh crore as of March 2022. The total guarantees outstanding on this account was Rs. 1.71 lakh crore (CAG's SFAR, Andhra Pradesh, FY2022).
- **Bihar – Case 1 (Rural Roads):** In FY2022 and FY2023, the Bihar Rural Road Development Agency (under the Rural Works Department) took loans disbursed by NABARD for implementation of Gramin Tola Sampark Nischay Yojna (GTSNY) Scheme amounting to Rs. 963 crore and Rs. 871 crore (CAG's SFAR, Bihar, FY2022, FY2023).
- **Bihar – Case 2 (Urban Roads):** Similarly, the Bihar State Road Development Corporation Ltd. (under Road Construction Department) took loans disbursed by HUDCO for financing road infrastructure amounting to Rs. 520 crore and Rs. 1207 crore, respectively. These are being

serviced by the government (**CAG's SFAR, Bihar, FY2022, FY2023**).

- **Bihar – Ganga Path Project:** A loan for construction of Ganga Path, amounting to Rs. 520 crore, was taken from HUDCO during 2021–22. The state government did not disclose this OBB in its budget documents, which would have increased its liabilities-to-GSDP ratio marginally (by 0.27 percent in 2022–23). The government had provided guarantees for these loans which were not included in the public debt figures in Finance Accounts and hence, did not figure in the calculation of fiscal deficit of the state (CAG's SFAR, Bihar, FY2022).

B. **Loans raised by subnational entities on their own strength for financing governmental schemes/programs/objectives because of government directives.**

These involve OBF of central schemes via public financial institutions like NABARD or NSSF. Though the borrowing is routed through autonomous entities, repayment obligations lie with the Union Government. These are not reflected in government accounts or fiscal deficit figures, creating a significant fiscal transparency gap.

- **PMAY-Gramin (PMAY-G):** Financial assistance is given by the government for providing houses in rural areas. During 2017–18, while central assistance of Rs. 22,572 crore was provided from budgetary resources, a shortfall of Rs. 7,329 crore in budgetary resources was met from funds raised by NABARD through issue of bonds which were to be fully serviced by the GOI. In 2018–19, in addition to a central assistance

of Rs. 19,308 crore through budgetary resources, funding for the scheme, amounting to Rs. 10,679 crore, was provided by NABARD through GOI fully serviced bonds. The funds were routed through the National Rural Infrastructure Development Agency (NRIDA), an autonomous body under the Ministry of Rural Development. Consequently, these transactions were recorded in NRIDA's books and not in Union Government accounts (CAG Report no 6 of 2021 for Union Government, FY2019).

- **PMAY-Urban (PMAY-U):** Central assistance is envisaged for implementing agencies to provide houses to all eligible families/beneficiaries in urban areas. In addition to funding from budgetary resources, in February 2018, the government approved the creation of a National Urban Housing Fund (NUHF) in the Building Materials and Technology Promotion Council (BMTPC) for raising funds through borrowings for funding PMAY-U. The government undertook to amortize loans and meet repayment obligations. During 2017-18, Rs. 8,591 crore was paid as central assistance from budgetary resources. In addition, BMTPC raised Rs. 8,000 crore as a loan from NSSF, for disbursing assistance under the scheme. In 2018-19, Rs. 6,135 crore was provided from budgetary resources for this scheme (CAG Report no. 6 of 2021 for Union Government, FY2019).
- Till 2017-18, **Swachh Bharat Mission (SBM)** was primarily being funded from collections of the Swachh Bharat Cess and Corporate Social Responsibility (CSR) Funds. However, after the introduction of Goods and Services Tax (GST), the cess was abolished. As a result, during 2018-19, SBM (G) was funded

through both budgetary support of Rs. 12,913 crore and funds raised through fully serviced bonds by NABARD amounting to Rs. 8,698.20 crore. The funds raised by NABARD were routed through National Centre for Drinking Water, Sanitation and Quality (NCDWS&Q) for payment of central assistance under the scheme. As the expenditure from extra-budgetary resources (EBRs) was not accounted in the books of the government, it led to understatement of revenue expenditure, revenue deficit, and fiscal deficit. Besides, the borrowings made on the books of NABARD and NCDWS&Q remained excluded from the accounts of the government, thereby understating government debt. As the debt will finally be serviced through budgetary support in subsequent years, the burden of current expenditure would get shifted to future generations (CAG Report no. 6 of 2021 for Union Government, FY2019).

C. **Loans raised by loss-incurring subnational entities with government guarantees for financing governmental schemes/programs/objectives when such loans are being serviced through budgetary resources.**

- In **Karnataka**, seven loss-making SPSEs borrowed loans totalling Rs. 2,350 crore during FY2022. The CAG estimated that the outstanding OBBs of these seven entities were Rs. 18,421 crore as of March 2022 (CAG's SFAR, Karnataka, FY2023).
- The **Rajasthan** government has resorted to OBBs through Zilla Parishads amounting to Rs. 1,512 crore (CAG's SFAR, Rajasthan, FY2022).

D. **Loans raised through 'fully serviced bonds' serviced by the government.**

- **Housing Sector: HUDCO and PMAY-U (FY2019):** Up until FY2020, raising loans through ‘fully serviced bonds’ serviced by the Centre through its budget allocations was not uncommon. An amount of Rs. 20,000 crore was raised through HUDCO in the form of fully serviced bonds and routed through BMTPC for funding PMAY-U in FY2019. (Report no. 6 of 2021 for Union Government, FY2019).
- **Infrastructure Sector: NHAI’s OBBs (FY2020):** NHAI and many other central institutions raise loans through ‘fully serviced bonds’ which are then serviced by the Union Government through budget allocations as ‘charged’ expenditure not subject to vote. These bonds do not feature under government liabilities in the budget. NHAI was established to build and maintain the national highways; all toll receipts of NHAI and the government’s share in revenue in PPP projects are deposited in Consolidated Fund of India as non-tax revenues, which are then ploughed back to NHAI as investments. The CAG has observed that the borrowings raised by the NHAI were in the nature of EBR and the use of such borrowings outside the budget shifted the servicing responsibility to future years. The borrowings were also facilitated by high ratings based on NHAI’s financial and operational linkages with the GOI and incentives obtained by NHAI in the form of tax reliefs, which comprise cost in terms of revenue forgone. The CAG observed that during 2019–20, NHAI had raised Rs. 74,988 crore through EBRs not disclosed in the budget (CAG Report no. 18 of 2022, FY2020, Union Government).
- **Railways: IRFC Leasing Model (FY2020):** IRFC, a fully government-owned company under the Ministry

of Railways, plays a central role in mobilizing funds for railway capital expenditure. It raises market borrowings to purchase rolling stock and infrastructure, which are then leased to the ministry. In FY2019–20, over 70 percent of Indian Railways’ operational rolling stock was financed through IRFC. That year, IRFC raised Rs. 36,400 crore, the cost of which was met through lease rentals paid by the railways—serviced from budget allocations. As with NHAI, this borrowing was not disclosed in the budget, again highlighting the non-transparent nature of such fiscal practices (CAG Report no. 18 of 2022, FY2020, Union Government).

E. **Non-deposit of state levies in the Consolidated Fund**

- Some states resort to an unconstitutional practice of escrowing a part of their tax revenues for the repayment of loans raised by a subnational entity instead of crediting those revenues to the Consolidated Fund. The CAG has taken note of it, as has the RBI, but the practice continues.
- **Kerala: Circumventing Borrowing Limits via EBBs:** Kerala presents a textbook case of using EBBs to circumvent the NBC imposed under Article 293 of the Constitution—a matter currently under litigation before the **Supreme Court of India**. Between FY2016–17 and FY2021–22, the state mobilized Rs. 42,285 crore through EBBs by leveraging two entities: the Kerala Infrastructure Investment Fund Board (KIIFB) and the Kerala Social Security Pension Limited (KSSPL).
 - **KIIFB**, a statutory body, raises loans for infrastructure development. These are serviced through an annuity payment structure. Since KIIFB has no

independent revenue source, repayments rely entirely on state budget allocations—qualifying this as extra-budgetary financing.

- **KSSPL**, a government company, raises market loans to disburse social security pensions, with debt servicing fully backed by budgetary support (CAG's SFAR, Kerala, FY2022).
 - Similarly, KSSPL is a government company that disburses social security pensions by raising loans from the market which are serviced by the government through the budget. Such EBBs which are undisclosed in the budget are non-transparent means of financing fiscal deficit. If all the EBBs are considered, the debt ratio of Kerala increases to 40.88 percent for 2021–22, as against 38.7 percent computed otherwise, which is much beyond the limit of 32.6 percent prescribed by the XV FC for the year (CAG's SFAR, Kerala, FY2022).
 - **Andhra Pradesh: OBBs via Escrow of Excise Revenues:** Andhra Pradesh raised Rs. 23,200 crore in OBBs till FY2022 through entities such as the AP Road Development Corporation (APRDC) and the AP State Development Corporation (APSDC). These borrowings were secured against escrowed revenues—notably future proceeds from the Additional Retail Excise Tax (ARET) on liquor—thus bypassing direct credit to the Consolidated Fund (CAG's SFAR, Andhra, FY2022).
- F. **Arrears of claims (unpaid claims) raised during a year but not paid:** This is another commonly used method resorted to by both the Central government and state governments. Examples include contractors' bills when the work is completed, employees' claims for reimbursement of entitlements, and suppliers' bills for goods and services

supplied. The CAG has flagged some such glaring instances by taking advantage of the cash system of government accounting.

- **Kerala Government's Bill Discounting Arrangement (2021–22):** The Kerala Government resorted to short-term borrowings to settle pending contractor bills through a bill discounting mechanism. Promissory notes worth Rs. 1,602 crore were issued during the year but remained unsettled and were not reflected in the accounts. This effectively deferred clear-cut liabilities to the next financial year, creating an avoidable interest burden (CAG's SFAR, Kerala, FY2022).
- **Union Government's delay in subsidy payments (up to FY2018):** Similar practices were observed at the Union Government level, particularly in relation to fertilizer subsidy payments to the FCI. The CAG (Report No. 6 of 2021) reported that for FY2017–18 and FY2018–19, carry-forward liabilities on fertilizer subsidies amounted to Rs. 26,183 crore and Rs. 32,489 crore, respectively. Non-clearance of subsidy claims led to an understatement of revenue expenditure and revenue deficit. Furthermore, during these years, the Department of Expenditure approved Special Banking Arrangements (SBA) of Rs. 7,000 crore and Rs. 10,000 crore, respectively, to assist fertilizer companies in managing liquidity, partially bearing the associated interest costs. This arrangement constituted EBB for funding subsidy payments (CAG Report no. 6 of 2021 for Union Government).
- **Subsidies to Petroleum Sector and Mismanagement of Cess Collections:** Subsidies for the petroleum sector were partly

managed through securities issued in lieu of direct subsidy payments to oil marketing companies. These securities were held in the public account under 'Small Savings, Provident Funds, and Other Accounts'. Separately, the CAG observed that Rs. 124,399 crore collected as cess on crude oil over the past decade was not transferred to the designated Oil Industry Development Board Reserve Fund but was instead retained in the Centre's general revenues.

- **Recent Improvements and Outstanding Concerns:** The Union Government claims to have discontinued the use of OBBs for food and fertilizer subsidies by allocating the requisite amounts directly through the budget. Statement 27 of the Union Budget documents reflects OBBs of Rs. 1.37 lakh crore from FY2016 to FY2022, with none reported thereafter. However, in the absence of updated CAG audits on FRBMA compliance post FY2020, the true status remains uncertain. It would be imprudent to assume that all OBBs or EBRs have been eliminated without independent verification.

G. Advance receipt of future receivables from subnational entities

- The National Thermal Power Corporation (NTPC) purchases coal from Coal India Limited (CIL) for use in its thermal power plants, and the

Indian Railways transports this coal, charging freight fees to CIL. These freight receipts are recognized as non-tax revenue in the Union Government accounts. It has been observed that, in the past, the Union Government directed Indian Railways to collect freight charges for future periods in advance, primarily to artificially lower the fiscal deficit. This practice takes undue advantage of the cash-based system of accounting and should be classified as an EBB.

- In 2018-19, against a budget estimate of Rs. 12,990 crore, the Indian Railways reported a 'net surplus' of Rs. 3,774 crore. This reflected an increase from Rs. 1,666 crore in 2017-18. However, the surplus was significantly bolstered by the advance receipt of Rs. 8,351 crore in freight charges from NTPC and CONCOR for transportation services scheduled for 2019-20. Without this advance payment, the Indian Railways would have reported a negative balance of Rs. 7,335 crore rather than a surplus (CAG Report No. 8 of 2020, Union Government, Railways).
- Such practices can be (and reportedly are) selectively employed whenever fiscal deficit figures threaten to exceed acceptable thresholds. This raises concerns about transparency, the integrity of fiscal reporting, and the masking of underlying financial health.

Annexure III-A:

Off-Budget Borrowings: Summary of Findings (all figures in Rs crore)

1. Andhra Pradesh

Year	OBB liabilities	OBBs raised during the year
2020–21	112,115 ¹⁸	38,313
2021–22	118,394	NA
2022–23	128,047	35,114

Nature of OBB liabilities	2020–21	2021–22	2022–23
Non-deposit of state levies in Consolidated Fund (loans raised by escrowing future revenues of Consolidated Fund of the State)			
a. APSDC raised loans with government guarantees for financing social and economic development projects in the state. These loans are being repaid by escrowing the revenues from a newly levied ARET on consumable liquor.	18,500 ¹⁹	22,504	21,450 ²⁰
b. APRDC raised loans for servicing of the existing loans and maintenance and repair of damaged road stretches with paver patches. These are being repaid by escrowing a newly levied 'Road Development Cess', collected at the point of first sale in the state at a rate of Re. 1 per liter on petrol and high-speed diesel.		699	NA
Loans raised by subnational entities with government guarantees, where such loans are serviced by budgetary resources	93,615	95,191	128,047 ²¹
Total	112,115	118,394	149,497

2. Telangana

Year	OBB liabilities	OBBs raised during the year
2020–21	97,940	21,803
2021–22	118,955	20,858
2022–23	118,629	NA

Nature of OBB liabilities	2020–21	2021–22	2022–23
Loans raised by subnational entities with government guarantees, where such loans are serviced by budgetary resources	47,070	73,523	72,488 ²²

¹⁸ Figures mentioned in SFAR for the year were Rs. 86,260 crore, which were later revised for that year in 2021–22.

¹⁹ These borrowings were made during 2020–21.

²⁰ Exact figure is not available from CAG reports. From the information available in the CAG's SFAR, Table 2.47, it appears that this amount has been included under the other category: Loans being serviced by the state government. Similar information for APRDC cannot be determined.

²¹ Of the total amount, Rs. 63,718 (50 percent) crore pertain to institutions that have no revenue sources of their own.

²² Kaleshwaram Irrigation Project Corporation alone accounted for Rs. 64,652 crore of this, even though its total borrowings till the year amounted to Rs. 79,205 crore. The CAG has reckoned only the amount shown under guarantees outstanding against the corporation.

Nature of OBB liabilities	2020-21	2021-22	2022-23
Loans raised by loss-making subnational entities with government guarantees, where such loans are serviced by budgetary resources	48,111	45,432	46,141
Non-reimbursement of the principal/interest component by the state government to State Public Sector Companies/Corporations, SPVs, etc., for the loan taken by them on behalf of the state government	660		
Deployment of own funds by the State Public Sector Companies/Corporations, SPVs, etc. for execution of the deposit work of the state government which was to be financed by the state government for Hyderabad Growth Corridor Ltd., Northern Power Distribution Co. Ltd, and Singareni Collieries Co. Ltd.	2,099		
Total	97,940	118,955	118,629

3. Kerala

Year	OBB liabilities	OBBs raised during the year
2020-21	16,459	9,273
2021-22	25,874	14,313
2022-23	29,476	8,059

Nature of OBB liabilities	2020-21	2021-22	2022-23
a. Non-deposit of state levies in Consolidated Fund (loans raised by escrowing future revenues of Consolidated Fund of the State)	5,611	13,066	17,743
b. Petroleum cess and 50% of Motor Vehicles Tax escrowed for servicing loans taken by KIIFB to finance state's infrastructure projects. KIIFB does not have any revenue source and depends on the state to repay its loans.			
Loans raised by KSSPL to pay old age pension of Rs. 1,600 per month, through guarantees of the state government which are being serviced through budgetary support in the form of grants-in-aid/loans from the state government	10,049	11,206	11,733
Borrowings under bill discounting system (settling the pending bills of contractors through bill discounting system). Promissory notes for Rs. 1,602 crore were issued during the year but remain unsettled and unaccounted for, constituting a clear liability for the next year, along with interest liability.		1,602	
Total	15,660	25,874	29,476

4. Tamil Nadu

Year	OBB liabilities	OBBs raised during the year
2020-21	15,369	14,735
2021-22	27,670	12,357
2022-23	2,299 ²³	NA

Nature of OBB liabilities
Loans raised by sub-state entities through guarantees of the state government which are being repaid through budgetary support in the form of grants-in-aid/loans from the state government

²³ Of this outstanding off-budget liability disclosed by the state government in 2023-24 budget, Rs. 26,426 crore (95.5 percent) pertained to TANGEDCO as on March 31, 2022. However, in 2022-23, it excluded this liability as TANGEDCO is repaying its borrowings, which needs to be verified by the CAG. The CAG's SFAR for the year is not yet available.

5. Madhya Pradesh

Year	OBB liabilities	OBBs raised during the year
2020-21	NA	1,255
2021-22	2,322	534
2022-23	2,887	565

Nature of OBBs raised during the year	2020-21	2021-22	2022-23
Non-deposit of state levies in Consolidated Fund (loans raised by escrowing future revenues of Consolidated Fund of the State)	1,155	246	233
2% cess on stamp duty in areas under ULBs to be deposited into stamp duty surcharge fund (reserved) for repayment of loan under the state budget			
Non-deposit of non-tax revenues (dividend and energy charges) in Consolidated Fund (loans raised by escrowing future non-tax revenues of Consolidated Fund of the State)	—	288	332
Loans raised by sub-state entities through guarantees of the state government which are being repaid through budgetary support in the form of grants-in-aid/loans from the state government	100	—	—
Total	1,255	534	565

6. Karnataka

Year	OBB liabilities	OBBs raised during the year
2020-21	18,421	3,045
2021-22	16,682	2,350
2022-23	17,306	4,029

Nature of OBB liabilities
Loans raised by sub-state entities through guarantees of the state government which are being repaid through budgetary support in the form of grants-in-aid/loans from the state government

7. West Bengal

Year	OBB liabilities	OBBs raised during the year
2020-21	18,421	4,311
2021-22	No accounts available after	NA
2022-23	2020-21	NA

Nature of OBB liabilities
Loans raised by sub-state entities through guarantees of the state government which are being repaid through budgetary support in the form of grants-in-aid/loans from the state government

8. Punjab

Year	OBB liabilities	OBBs raised during the year
2020-21	4,004	523
2021-22	4,067	803
2022-23	2,466	484

Nature of OBB liabilities

Loans raised by sub-state entities through guarantees of the state government which are being repaid through budgetary support in the form of grants-in-aid/loans from the state government

9. Haryana

Year	OBB liabilities	OBBs raised during the year
2020-21	406	NA
2021-22	823	NA
2022-23	279	22

Nature of OBB liabilities

Loans raised by sub-state entities through guarantees of the state government which are being repaid through budgetary support in the form of grants-in-aid/loans from the state government

10. Rajasthan

Year	OBB liabilities	OBBs raised during the year
2020-21	1,804	NA
2021-22	1,581	NA
2022-23	1,279	1,279

Nature of OBB liabilities

Loans raised by sub-state entities through guarantees of the state government which are being repaid through budgetary support in the form of grants-in-aid/loans from the state government (more than 99% of the amounts represent loans raised by various Zilla Parishads under guarantee from the state government)

11. Bihar

Year	OBB liabilities	OBBs raised during the year
2021-22	1,483	520
2022-23	687	687

Nature of OBB liabilities

Loans raised by sub-state entities through guarantees of the state government which are being repaid through budgetary support in the form of grants-in-aid/loans from the state government

12. Chhattisgarh

Year	OBB liabilities	OBBs raised during the year
2020-21	2,310	NA
2021-22	3,873	NA
2022-23	7,161	NA

Nature of OBB liabilities

Loans raised by sub-state entities through guarantees of the state government which are being repaid through budgetary support in the form of grants-in-aid/loans from the state government

Annexure III-B:

Results of the Analysis of Data on 12 States

The state-wise findings of the results of our data analysis are given in **Annexure IV**. A summary of the findings can be seen as follows:

Summary of OBBs (Figures in Rs crore)

1. Andhra Pradesh

Year	OBB liabilities	% of GSDP	OBBs raised during the year	% of GSDP	Principal methods of raising OBBs
2020-21	112,115	11.46	38,313	4.0	<ul style="list-style-type: none"> Non-deposit of state levies as also newly levied cess in the Consolidated Fund (loans raised by escrowing future revenues of Consolidated Fund of the State) Loans raised by subnational entities with government guarantees, where such loans are serviced by budgetary resources
2021-22	118,394	10.44	NA	NA	
2022-23	128,047	9.72	35,114	2.7	

2. Telangana

Year	OBB liabilities	% of GSDP	OBBs raised during the year	% of GSDP	Principal methods of raising OBBs
2020-21	97,940	10.39	21,803	2.3	<ul style="list-style-type: none"> Loans raised by subnational entities with government guarantees, where such loans are serviced by budgetary resources Deployment of own funds by the state entities. for execution of the deposit work of the state government
2021-22	118,955	10.54	20,858	1.8	
2022-23	118,629	9.03	NA	NA	

3. Kerala

Year	OBB liabilities	% of GSDP	OBBs raised during the year	% of GSDP	Principal methods of raising OBBs
2020-21	16,459	2.13	9,273	1.2	<ul style="list-style-type: none"> Non-deposit of state levies as also newly levied cess in the Consolidated Fund (loans raised by escrowing future revenues of Consolidated Fund of the State) Loans raised by subnational entities with government guarantees, where such loans are serviced by budgetary resources Borrowings under bill discounting system
2021-22	25,874	2.77	14,313	1.4	
2022-23	29,476	2.82	8,059	0.8	

4. Tamil Nadu

Year	OBB liabilities	% of GSDP	OBBs raised during the year	% of GSDP	Principal methods of raising OBBs
2020-21	15,369	0.85	14,735	0.8	<ul style="list-style-type: none"> Loans raised by subnational entities with government guarantees, where such loans are serviced by budgetary resources
2021-22	27,670	1.34	12,357	0.6	
2022-23	2,299	0.10	NA	NA	

5. Madhya Pradesh

Year	OBB liabilities	% of GSDP	OBBs raised during the year	% of GSDP	Principal methods of raising OBBs
2020-21	NA	NA	1,255	0.10	<ul style="list-style-type: none"> Non-deposit of state receipts, both tax and non-tax, as also newly levied cess in Consolidated Fund (loans raised by escrowing future revenues of Consolidated Fund of the State) Loans raised by subnational entities with government guarantees, where such loans are serviced by budgetary resources
2021-22	NA	NA	576	0.05	
2022-23	3,154	0.24	565	0.06	

6. Karnataka

Year	OBB liabilities	% of GSDP	OBBs raised during the year	% of GSDP	Principal methods of raising OBBs
2020-21	18,421	1.13	3,045	0.2	<ul style="list-style-type: none"> Loans raised by subnational entities with government guarantees, where such loans are serviced by budgetary resources
2021-22	16,682	0.85	2,350	0.1	
2022-23	17,306	0.79	4,029	0.2	

7. West Bengal

Year	OBB liabilities	% of GSDP	OBBs raised during the year	% of GSDP	Principal methods of raising OBBs
2020-21	18,421	1.13	4,311	0.26	<ul style="list-style-type: none"> Loans raised by subnational entities with government guarantees, where such loans are serviced by budgetary resources
2021-22	No accounts available after 2020-21				
2022-23					

8. Punjab

Year	OBB liabilities	% of GSDP	OBBs raised during the year	% of GSDP	Principal methods of raising OBBs
2020-21	10,551	1.99	NA	NA	<ul style="list-style-type: none"> Loans raised by subnational entities with government guarantees, where such loans are serviced by budgetary resources
2021-22	770	0.13	NA	NA	
2022-23	3,243	0.48	400	0.6	

9. Haryana

Year	OBB liabilities	% of GSDP	OBBs raised during the year	% of GSDP	Principal methods of raising OBBs
2020-21	406	0.05	NA	NA	• Loans raised by subnational entities with government guarantees, where such loans are serviced by budgetary resources
2021-22	823	0.09	NA	NA	
2022-23	279	0.03	22	—	

10. Rajasthan

Year	OBB liabilities	% of GSDP	OBBs raised during the year	% of GSDP	Principal methods of raising OBBs
2020-21	1,804	0.18	NA	NA	• Loans raised by subnational entities with government guarantees, where such loans are serviced by budgetary resources
2021-22	1,581	0.13	NA	NA	
2022-23	1,279	0.09	1,279	0.09	

11. Bihar

Year	OBB liabilities	% of GSDP	OBBs raised during the year	% of GSDP	Principal methods of raising OBBs
2020-21	18,421	1.13	3,045	0.2	• Loans raised by subnational entities with government guarantees, where such loans are serviced by budgetary resources
2021-22	16,682	0.85	2,350	0.1	

12. Chhattisgarh

Year	OBB liabilities	% of GSDP	OBBs raised during the year	% of GSDP	Principal methods of raising OBBs
2020-21	2,310	0.66	NA	NA	• Loans raised by subnational entities with government guarantees, where such loans are serviced by budgetary resources
2021-22	3,873	0.95	NA	NA	
2022-23	7,161	1.56	NA	NA	

Annexure IV: Disbursement of Loans by Public Sector Banks to State PSUs

(Rs. In crore)

S.no.	Bank Names	2018-19	2019-20	2020-21	2021-22	2022-23
1	Bank of Baroda	4,482.6	14,238.7	25,628.0	42,014.8	15,706.8
2	Bank of India	25,713.0	26,497.0	40,542.0	33,366.0	25,147.0
3	Bank of Maharashtra	2,489.5	2,287.1	8,984.3	17,160.6	10,822.7
4	Canara Bank	1,19,961.0	1,30,192.0	1,35,942.0	1,69,532.0	1,87,813.0
5	Central Bank of India	2,959.0	2,762.5	2,454.8	1,475.8	3,949.0
6	Indian Bank	12,400.0	16,878.0	20,099.0	16,832.0	9,021.0
7	Indian Overseas Bank	3,593.7	3,038.0	4,854.6	9,274.4	7,490.0
8	Punjab National Bank	5,653.3	20,777.4	41,543.7	96,395.7	70,142.5
9	Punjab & Sind Bank	0.0	200.0	1,150.0	3,570.0	87.7
10	State Bank of India	67,250.0	80,961.0	85,463.6	81,735.2	66,523.2
11	UCO Bank	356.3	3,950.0	6,150.0	4,082.7	2,939.4
12	Union Bank of India	6,214.4	9,237.5	26,016.5	17,940.3	12,584.8
	Total	2,51,072.7	3,11,019.1	3,98,828.5	4,93,379.2	4,12,227.1

Source: Reply to Lok Sabha starred Question No *55 dated 23.07.2023.²⁴

²⁴ [Public sector banks' lending to state govt units down 20% in FY23 | Finance News - Business Standard.](#)

