GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:432
ANSWERED ON:02.09.2011
COMMITMENT CHARGES ON EXTERNAL ASSISTANCE
Singh Shri Vijay Bahadur;Sivasami Shri C.

Will the Minister of FINANCE be pleased to state:

(a) whether unutilised committed external assistance has been increasing over the years;

(b) if so, the details thereof and the reasons therefor, sector-wise and State-wise during each of the last three years;

(c) whether inadequate planning by Ministries/Departments resulted in avoidable expenditure in the form of commitment charges;

(d) if so, the details thereof, sector-wise and State-wise; and

(e) the steps taken by the Government in this regard?

Answer

MINISTER OF FINANCE (SHRI PRANAB MUKHERJEE)

(a) - (e): A statement is laid on the table of the House.

STATEMENT REFERRED TO IN REPLY TO THE LOK SABHA STARRED QUESTION NO. 432 FOR 2ND SEPTEMBER, 2011 BY`SHRI SIVASAMI C. AND SHRI VIJAY BAHADUR SINGH REGARDING COMMITMENT CHARGES ON EXTERNAL ASSISTANCE.

(a) & (b): Yes, Sir. Externally aided Government projects generally have implementation period of 6 to 7 years, with low plan disbursement in the initial stages. Different activities including procurement of goods, works and services are spread, as per need, throughout the implementation period. Accordingly, the Project Implementing Agencies (PIAs) utilize the committed external assistance, in a phased manner. The unutilized committed external assistance in a year also increases due to signing of new agreements in that year. State-wise and Sector-wise details of unutilized committed external assistance during last three years are at Table I & II respectively.

(c) & (d): Department of Economic Affairs (DEA) enters into relevant financing agreements with external lending agencies after considering the preparedness of the projects and readiness of the implementing Ministries / State Governments for launching the project. As part of the terms and conditions of the loans under external assistance, commitment charges are levied by some lending agencies on unutilized loan commitments. Commitment charge is the charge levied for holding available the undisbursed balance of a loan commitment. Generally, these charges are levied after a grace period of signing the loan agreements (2 to 6 months, depending on the terms and conditions of the loan). Since only the disbursed portion of the loan earns interest for the lender, the undisbursed funds remain blocked without earning any interest. The lender incurs cost on these blocked funds, as these funds have to be kept in liquid assets, ready for disbursement. To compensate for this, a commitment charge is charged on the undisbursed loan balance. It is an integral part of terms and conditions of multilateral and bilateral loans and unavoidable, as such. Being usually a fraction of interest rate, it is significantly lower than alternate funding options.

As the average implementation period ranges from 6 to 7 years, projects may get delayed due to difficulties arising out of unforeseeable contingencies, often beyond the control of the implementing Ministries / State Governments and paying of commitment charges may not necessarily be attributed to inadequate planning by Ministries/Departments or State Governments.

(e): In order to ensure timely utilization of the committed external assistance, regular review meetings are taken up by DEA, Line Ministries/State Governments and external lending agencies to monitor the progress of implementation and identify bottlenecks to take corrective measures.