ASIAN DEVELOPMENT BANK

TA 7055-IND: Capacity Development of National Capital Region Planning Board (NCRPB) – Package 1 (Components A and C)

TREASURY MANAGEMENT MANUAL

March 2009

Submitted By:

Infrastructure Professionals Enterprise Private Limited, India

in association with

Tamil Nadu Urban Infrastructure Financial Services Limited, India

ACRONYMS

ADB	:	Asian Development Bank
A&F	:	Administration and Finance
CA	:	Chartered Accountant
C&AG	:	Comptroller and Auditor General of India
COA	:	Chart of Account
CRISIL	:	Credit Rating Information Services of India Limited
EA	:	External Audit
EDP	:	Electronic Data Processing
FDs	:	Fixed Deposits
GAAP	:	Generally Accepted Accounting Principles Implementing Agencies
GPF	:	General Provident Fund
IAs	:	Implementing Agencies
IAS	:	International Accounting Standards
IASC	:	International Accounting Standards Committee
IASB	:	International Accounting Standards Board
IAU	:	Internal Audit Unit
ICAI	:	Institute of Chartered Accountants of India
ICRA	:	Investment Information and Credit Rating Agency of India Limited (now ICRA Limited)
ICWA	:	Institute of Cost and Works Accountants of India
IEBR	:	Internal and External Budget Resources
IFAC	:	International Federation of Accountants
IPSASB	:	International Public Sector Accounting Standards Board
IRAC	:	Income Recognition and Assets Classification and Provisioning
IFRS	:	International Financial Reporting Standards
INTOSAI	:	International Organization of Supreme Audit Institutions
FIs	:	Financial Institutions
FY	:	Financial Year
NCR	:	National Capital Region
NCRPB	:	National Capital Region Planning Board
NPA	:	Non-Performing Asset
NPF	:	New Pension Fund
PEFA	:	Public Expenditure and Financial Accountability
PFMA	:	Public Financial Management and Accountability
PIU	:	Project Implementation Unit
RBI	:	Reserve Bank of India
TMPS	:	Treasury Management Practices
VaR	:	Value at Risk

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1 INTRODUCTION

1.1 Background

1. This Treasury Manual (TM) assembles existing as well as recommended policies and guidelines in respect of treasury management of National Capital Region Planning Board (NCRPB). The treasury policies contained herein serve as guidelines for NCRPB with respect to its borrowing, cash and risk management activity. These policies safeguard the fiscal stability required to achieve NCRPB's goals and meeting immediate and long-term objectives.

2. The treasury management polices and guidelines in this manual are informed by the best practices in treasury management and are in compliance with guidelines from Asian Development Bank (ADB), Comptroller and Auditor General of India (C&AG), Public Expenditure Financial Accountability Program (PEFA), Reserve Bank of India (RBI) and General Financial Rules. These guidelines also meet the specific benchmarks from credit rating agencies like ICRA and CRISIL.

1.2 General Statement on Treasury Management Policy

3. The NCRPB defines its treasury management activities as the management of its cash flow, its banking, money market (where applicable) and capital market transactions (bonds, loans); the effective management and control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

4. The NCRPB regards the successful identification, monitoring and control of treasury risk to be the prime criteria by which the effectiveness of its treasury management activities should be measured. Accordingly, the analysis and reporting of treasury management activities focuses on their risk implications for NCRPB.

5. The NCRPB acknowledges that effective treasury management should provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management and to employing suitable performance techniques within the context of effective treasury risk management.

1.3 Structure of this Manual

6. This manual has been developed with the purpose of drawing together in one place all the information that is required for the staff of the National Capital Region Planning Board (NCRPB) for treasury operations. It complies with national and international best practice standards. The manual is intended to be enduring in nature, subject to regular amendment and additions.

7. This manual is contains four sections:

I. Introduction;
II. Existing Financial Assistance and Fund Framework;
III. Treasury Risk Management Practices; and,
IV. Schedules to the Statement on Treasury Management Practices.

8. In each section, the best practices are explained. Existing operating systems and practices (or lack of same) at NCRPB are also briefly described. Further, suggested plan of action or recommendations have been provided to upgrade the existing treasury system.

1.4 Authority, Distribution and Maintenance of the Manual

9. This treasury manual is available in non-editable version in soft copy and hard copy. Soft copy of the manual is also available at the website of NCRPB. Users are encouraged to check for the latest version of the manual at www.ncrpb.nic.in.

10. Furthermore, it is advisable that a hard copy of the manual be available for users in respective departments. This treasury manual is to be considered a dynamic document and shall be updated, as and when necessary, by the Board. The responsibility for updating shall rest with Director, Administration and Finance (A&F), NCRPB.

2 EXISTING FINANCIAL ASSISTANCE AND FUND FRAMEWORK

2.1 Background

11. The Government of India established the National Capital Region Planning Board (NCRPB) in 1985 with the concurrence of the participating States of Haryana, Rajasthan and Uttar Pradesh. In line with the agenda of the GoI, NCRPB has framed the following nonexclusive list as their objectives:

- Provide regional planning synergies across the national capital region;
- Fund projects which fit into the regional plan and improve the living standards of the NCR population; and,
- Operate a complementary window, the grant fund.

12. The over-arching mission for NCRPB is to promote economic growth in the NCR through balanced regional development.

2.2 Operationalising the Mandate

13. NCRPB has operated it mandate through two channels: the Regional Plan and the NCRPB Fund. The regional planning process facilitates the formulation of policy relating to land use, urban settlement patterns, provision of suitable economic base for future growth, and infrastructure development for transport, communications, power and water supply and sewerage for the entire NCRPB region. The NCRPB Fund has been used to provide loans to infrastructure projects within the region.

14. Figure 1 below provides a portrait as to how NCRPB finances its activities. In brief, NCRPB obtains financing from various mechanisms including bonds and grant financing from the Government of India.

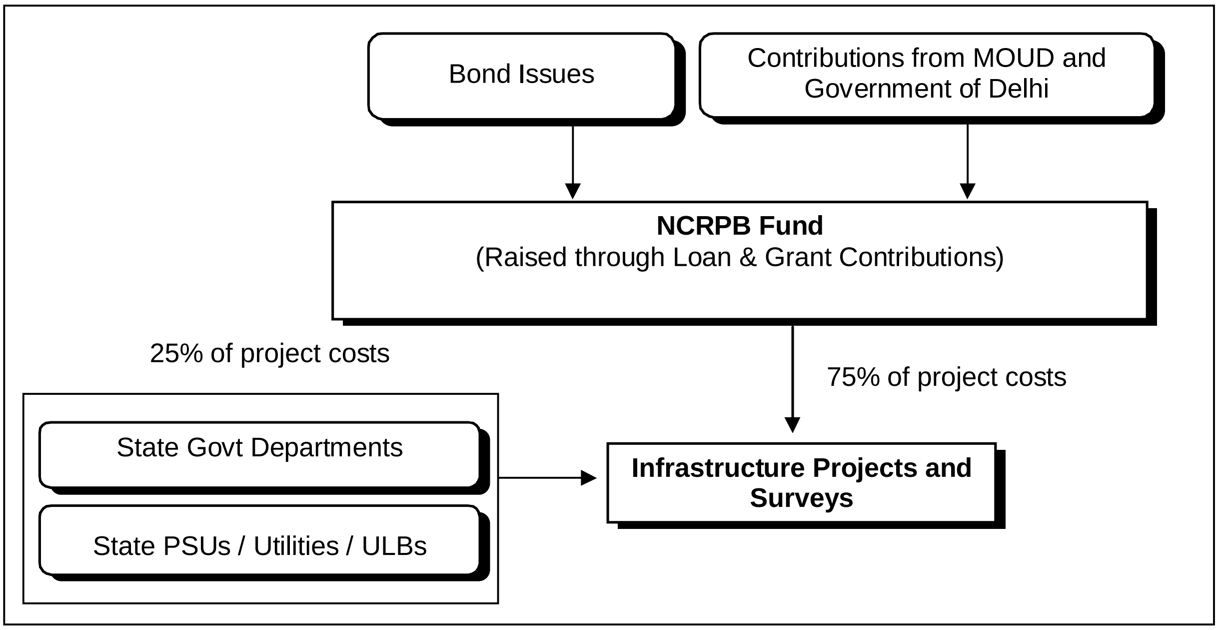


Figure 2.1: Illustration of NCRPB Financing Activities.

2.3 Capital Adequacy

15. The sources of capital for NCRPB largely consist of grants, which are given by the central government through its plan and non-plan funds and market borrowings. These are supplemented by internal accruals on repayment of loans. As internal accruals are also credited to the NCRPB fund in accordance with the Act. The following table provides the quantum of grants and internal accruals generated over the past five years, which has been treated as capital for the purpose of analysis.

Table 2.1: Grants and Internal Accruals

						Rs. In Crores
Sources of Funds	**FY03**	**FY04**	**FY05**	**FY06**	**FY07**	**FY08**
Additions during the year	105.81	134.14	134.01	148.61	164.97	257.80
Grants (Plan) from MoUD	55.00	52.00	61.70	70.00	75.00	100.00
Grants from Delhi Govt.	0.00	30.00	30.00	30.00	27.00	50.00
Surplus (Non Plan)	0.08	0.14	0.01	0.01	0.10	0.08
Surplus (Plan)	50.73	52.00	42.29	48.60	62.87	107.72
Closing balance	**983.93**	**1117.82**	**1251.63**	**1400.13**	**1565.10**	**1822.90**

16. The capital adequacy ratio is worked out as follows:

Capital Adequacy Ratio = (Grants + Internal Accruals *100) / (Total Assets – Risk Free Assets)

17. As per RBI guidelines, lending institutions have to provide 20% risk weight to loan assets backed by state government guarantees. In the case of recent loans of NCRPB, the Board has not been getting state government guarantee as security, but has got tripartite agreements with borrowing entities, their bankers and NCRPB, wherein, the bank is obliged to make the payment in the event of default on payments by the borrowing entity. This arrangement is supported by a letter of comfort from the respective state government. Therefore, for the purposes of calculating capital adequacy on a conservative basis, 100% risk weight is being given on loan assets. The risk-free assets here include cash and bank balances and the fixed deposits maintained as security for bond redemption.

Table 2.2: Capital Adequacy Ratio

Ratio	**FY03**	**FY04**	**FY05**	**FY06**	**FY07**	**FY08**
Capital Adequacy (%)	108.48	126.92	133.18	128.16	119.01	98.54

18. The above ratio estimates the capital that has to be allocated / available to protect NCRPB against loan defaults. Typically, most banks in India are required to have a capital adequacy of 12% to provide cushion against losses. In NCRPB's case, the capital adequacy is very high and almost equal to loan assets. This is primarily because the resources raised are predominantly in the form of government grants.

19. The capital adequacy ratio could change significantly in the future, as NCRPB resorts to borrowings from ADB and other multilaterals to support a larger asset book. Going by the minimum capital adequacy of 12%, the loan asset portfolio could increase to Rs.15190 crores, which is 8.33 times the present asset portfolio. This inference is strictly not

applicable to NCRPB because it is neither a Bank nor an FI regulated by the RBI.[1]

20. The credit quality of NCRPB's asset portfolio is quite weak despite a history of no delinquency. The analysis made in the Financing Plan[2] shows that once other factors are assumed, the quantum of borrowing that can be supported under the current NCRPB business model is much lower. NCRPB staff should use the financial model developed as an attachment to the Financing Plan to dynamically decide on funding sources and capital structure.

2.4 Resource Mobilization

21. In order to scale up the operations of NCRPB, the resources mobilization by NCRPB assumes significant importance. The Government of India (GoI), through the Ministry of Urban Development, provides grants to NCRPB as Plan funds, to carry out its functions under the NCRPB Act.

22. GoI also provides grants (Non-Plan funds) for salaries and other administrative expenses of the Board. Additionally, Government of NCT of Delhi contributes to the NCRPB Fund. Major internal resources consist of accruals from interest on loans released. NCRPB augments its resources by issuing bonds. In the initial years, NCRPB had a separate 'Asset fund' for fixed assets, and depreciation on fixed assets is charged to the fund. They had a separate 'Project Development Fund', for project preparatory works and appraisals, and all these funds got merged into the main funds as the C&AG objected to creation of separate funds in its audit report. The overall resource position for the last five fiscal years is summarized in the following table.

Table 2.3: Resource Position of NCRPB

Sources of Funds	FY04	FY05	FY06	FY07	FY08
Owned Funds	1117.82	1251.63	1400.13	1565.10	1822.90
Market Borrowings	597.70	387.15	387.15	0.00	200.00
Total	**1715.52**	**1638.78**	**1787.28**	**1565.10**	**2022.90**

23. *Grants by Governments:* GoI has given plan grants to the extent of Rs.824.62 crore from the time of the creation of the Board till March 2008, apart from non-plan grants for salaries and administrative expenses of the Board. The annual grant amount increased from a modest Rs.3.90 crore in 1985-86 to Rs.100 crore in fiscal 2007-08. But for 2008-09, GoI has sanctioned only Rs.50 crore against the demand of Rs.100 crore. Out of the four participating States, only the Government of NCT of Delhi has contributed Rs.300.75 crore to NCRPB Fund till March 2008. The initial contribution was Rs.3.5 crore in 1993-94 which has been raised to Rs.50 crore in 2007-08. However, the grant for the current year 2008-09 has not yet been received.

24. Of the total grants of Rs.1125.37 crore received till March 2008 (excluding those for administrative expenses), 73% (Rs.824.62 crore) were provided by GoI, and 27% (Rs.300.75 crore) by Government of NCT of Delhi. GoI grants are released quarterly after a demand is raised by NCRPB based on the budgetary allocation for a five year plan. MoUD takes about a month to process the demand and release the grant.

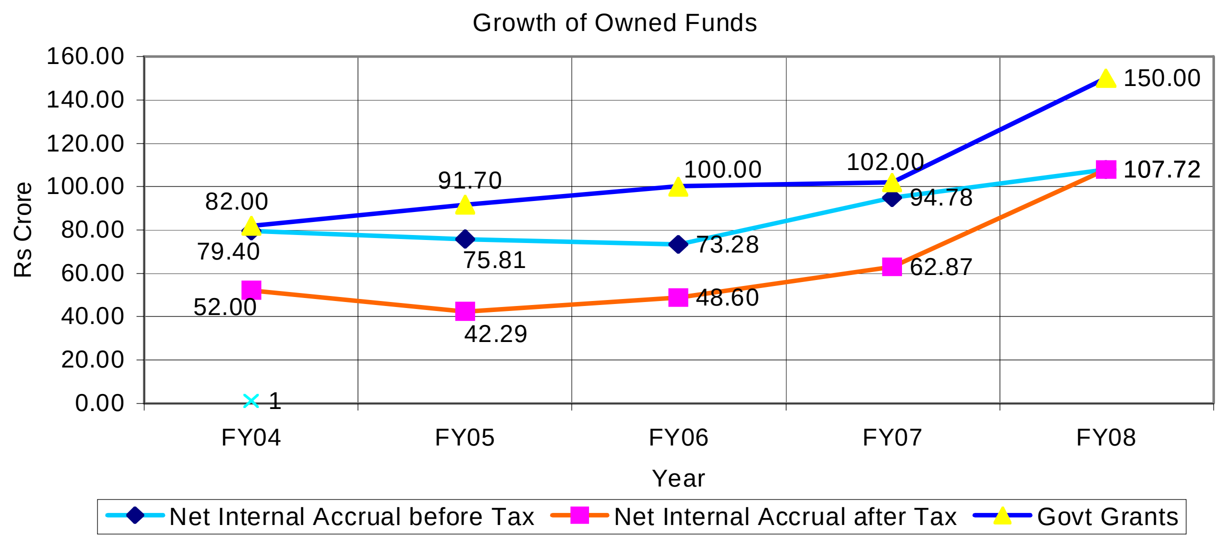
[1] It has been recommended that NCRPB voluntarily follow RBI income recognition and provisioning norms for banks in the Financial Management Manual.

[2] Financing Plan (March 2009) is a reference document produced by IPE Ltd under an ADB Technical Assistance program. NCRPB management can provide this document upon request.

2.5 Internal Accruals

25. The Board has added a substantial amount to its owned funds through internal accruals i.e. the interest paid by borrowing states and their agencies, despite a low rate of interest charged on loans. In the last five years, the net internal accruals after tax amounted to Rs.313.48 crore, equivalent to 60% of the grants received. Internal accruals before tax were in the sum of Rs.430.99 crore, about 82% of grants as depicted in the graphs below.

Figure 2.2: Internal Accruals Compared to Grants Received



26. NCRPB had not raised any debt after 2001-02 till February 2008, when Rs.200 crore debt was raised with a coupon rate of 8.98% p.a. (payable half yearly) and tenure of 10 years with a call/put option after 7 years. The instrument was rated AAA/Stable by CRISIL and AAA (ind) (SO) by Fitch Rating Services. The bonds have a Call/Put option at the end of 7th year, due to which rating agencies insisted on a Bond Redemption Reserve, which is to be funded to the full extent of the bond issue by the end of the 7th year, in the form of fixed deposit with public sector banks. The details of debts raised by the Board to date since 1998-99 are provided below.

Table 2.4: Debt Raised By NCRPB

Year	Crore Rs.	Interest Rate	Interest Payment	Redeemed In	Taxable/Tax – Free	Rating	Rating By
1998-99	83.30	14.00%	Half yr	2003-04	Taxable	AAA(So)	Crisil
1998-99	58.60	13.50%	Half yr	2003-04	Taxable	AAA(So)	Crisil
1998-99	84.50	10.50%	Half yr	2003-04	Tax free	AAA(So)	Crisil
1998-99	14.45	13.50%	Annual	2003-04	Taxable	AAA(So)	Crisil
1998-99	60.00	9.70%	Annual	2003-04	Tax free	AAA(So)	Crisil
1999-00	210.55	13.50%	Annual	2004-05	Taxable	AAA(So)	Crisil
2001-02	152.40	10.85%	Annual	2006-07	Taxable	AAA(So)	Crisil
2001-02	234.75	9.55%	Annual	2006-07	Taxable	AAA(So)	Crisil
2007-08	200.00	8.98%	Half yr		Taxable	AAA AAA (So)	Crisil Fitch
Total	**1098.55**						

2.6 Credit Enhancement Systems

27. NCRPB lends to the state governments and other parastatal agencies in the NCR region in accordance with its Act. For lending to the state governments, the board insists on a collateral security for loans 331/3% over and above the loans approved by the Board, in addition to letter from the state finance department acknowledging the borrowing from NCRPB. For lending to agencies other than the state government, the Board insists on an escrow mechanism[3] which includes bank guarantee, and credit enhancement by way of a letter of comfort by the state, or state government guarantees depending on the credit risks, wherever required. In addition, the Board also takes collateral security of the assets created, wherever possible. Historically, the Board has had negligible delinquency, However, the security mechanism and inherent project risks need to be appraised carefully going forward (as suggested in Appraisal Manual) as NCRPB expands its loan portfolio.

2.7 Liquidity Management

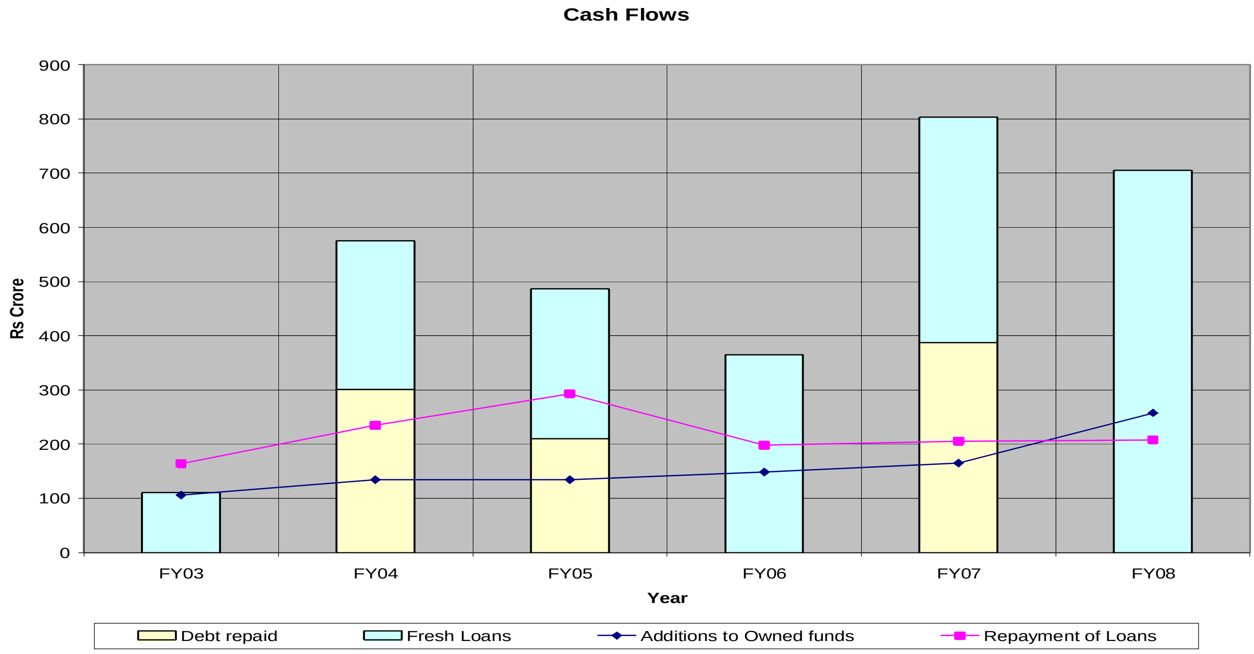
28. A review of NCRPB treasury operations revealed the deployment of funds and liquidity available with NCRPB over the past 5 years. The funds position is as follows:

[3] This is a tripartite agreement between NCRPB, borrower and the borrower's bank, where the borrower will agree to pay annuities on due dates, and the Bank undertakes to pay NCRPB on the due date if the borrower fails to pay. This way, it becomes a Bank guarantee.

Table 2.5: Sources and Deployment of Funds

Rs. In Crores					
Sources of Funds	**FY 04**	**FY 05**	**FY 06**	**FY 07**	**FY 08**
Owned Funds	1117.82	1251.63	1400.13	1565.10	1822.90
Market Borrowings	597.70	387.15	387.15	0.00	200.00
Total	**1715.52**	**1638.78**	**1787.28**	**1565.10**	**2022.90**
Deployment of Funds					
Loans to States/agencies	912.94	895.51	1062.27	1273.42	1771.17
Bond redemption reserve investment	264.57	268.03	385.64		
Surplus funds in Bank deposits	570.25	430.98	309.14	250.02	172.93
Other assets/liabilities	-32.23	44.26	30.23	41.67	78.80
Total	**1715.52**	**1638.78**	**1787.28**	**1565.10**	**2022.90**

Figure 2.3: Cash Flows Indicating Liquidity Position of NCRPB



29. In FY 08, NCRPB raised a debt of Rs.200 crore[4] to meet the demand for loan disbursement. Loans to states were to the extent of 88% of the funds, only 9% of the funds were held in short term deposits. There is no fixed deposit with banks as on date. The transition from a surplus to deficit liquidity state was mainly due to very low interest rates charged by NCRPB as compared to prevailing market rates, which increased demand for loan assistance from NCRPB.

2.8 Existing Cash Flow Monitoring Procedures

30. Monthly cash flow statements are prepared taking into account projects in pipeline and requirements of ongoing projects. The projections are compared with actual spending and adjusted accordingly. Cash disbursements take place throughout the year, whereas

[4]Proactive planning of comprehensive projects for the priority areas to implement the Regional Plan 2021, could have lead to a steady stream of projects for financing and PSMG meetings could be held regularly preferable once in quarters to ensure a stream of projects for financing and monitoring of project execution, drawal of loan instalments, gradually

repayments of loan and interest are mostly towards the end of the financial year (March). It is recommended that NCRPB insist on debt servicing on due date or on quarterly basis as is the market practice, if it needs to comply with RBI asset classification and income recognition norms for banks. At the beginning of the year, statement of interest and principal repayment due in the year is sent to each borrowing agency. A cash flow statement and estimates of internal & external budgetary resources (IEBR) are prepared for the five-year period coinciding with GoI plans.

31. The list of clients with their dues is prepared at the start of the year itself and the Board has effective follow up system for its dues against interest and repayment of principal loan sums. However, the transactions presently are few and far between and an interim computerised system for tracking loans and payments has already been provided to NCRPB under this TA. However, it needs to go in for a more robust integrated ERP system as will emerge from the recommendations and outputs of this TA to meet future requirements arising out of proposed scaling up of lending operations.

2.9 Deployment of Surplus Funds

32. NCRPB maintains a savings bank account with State Bank of Indore, Corporation Bank and Punjab National Bank (all public sector banks) with auto sweep facility, wherein receipts exceeding Rs. 1.00 lakh are automatically converted into short term deposits of 15 days' tenure. This enables NCRPB to earn interest on funds received after the 10th day of the month. Otherwise in savings bank account, interest is paid on the minimum balance between 10th and last day of the month.

33. Department of Expenditure, Ministry of Finance, GoI vide Office Memorandum F.No. 7(2)/E.Coord/2007 dated 15th January 2008 has directed government entities to place at least 60% of surplus money with public sector banks and to discontinue the practice of inviting competitive bids for bulk deposits. It has also directed the government corporations to place bulk deposits with bank(s) with whom the regular course of business is done.

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2.10 Financing Policies and Rules

35. Annexure 2 provides basic financing policies and rules that NCRPB Treasury must ensure are being followed.

2.11 Issues Impacting Current Operations

36. The following represents a non-exclusive list of issues effecting NCRPB's current treasury cash management operations.

2.11.1 NCRPB Need for Long-Tenor Funds

37. There is a need to provide long tenor funds to implement infrastructure projects since such projects are long gestation where stable cash flows are seen 5-7 years after the project award. The financing currently available in the market is often short-term and has frequent interest rate resets. This results in interest rate risk and liquidity risk in case the project promoters are not able to refinance the loans. The maximum tenor available in the Indian market is 15 years with 2-3 year resets.

2.11.2 Mismatch b/w Resource Mobilisation and Deployment

38. NCRPB has witnessed periods where it has not been able to deploy its available resources optimally and periods where resources are a constraint. This has arisen primarily because of the inability of its implementing agencies to plan projects and ensure drawdown of funds in a timely manner.

2.11.3 Other Borrowings

39. Planning Commission vide its letter No.PC/H/7/4/2006/ HUD (Vol II) of 22nd October, 2007 has approved in principle NCRPB's plan to raise loan amounting to Rs.4000 crore each from Asian Development Bank and World Bank during the Eleventh Plan period (2007-12) subject to the following:

- NCRPB would consider all projects to be executed through PPP mode in the first instance. In such projects only land acquisition and State contribution in excess of VGF (i.e. up to 20% of the total project cost) could be financed.

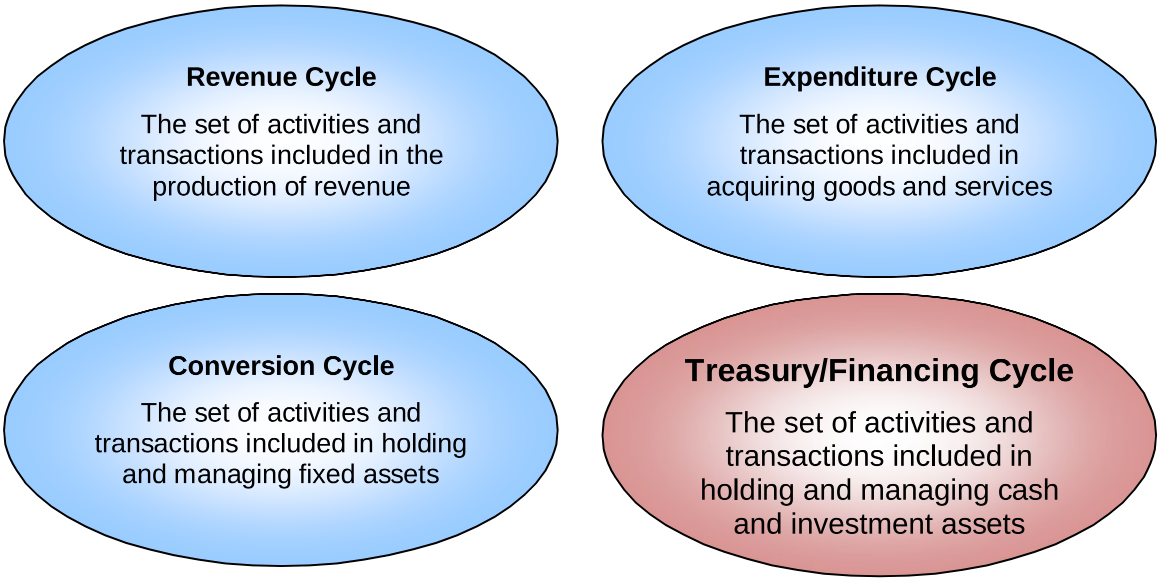
- All projects would be appraised by an independent professional agency of national repute.

- Projects financed by NCRPB should generally yield a stream of revenue to enable NCRPB to repay the loan.

3 TREASURY RISK MANAGEMENT PRACTICES

40. **A Cycle Approach:** A systematic and reliable approach for identifying points of risk within an institution is to classify operating activities and transactions into operational cycles. Although the activities within cycles vary among different types of business entities, the major cycle categories are common to all.

Figure 1: The Cycle Approach



41. **Revenue Cycle:** In a Financial Intermediary (FI) like NCRPB, the primary source of revenue is the interest and fees collected on loans made to clients.

- ✓ At NCRPB, the revenue cycle is the credit delivery cycle and includes the entire process of disbursing and collecting loans, all of which should be clearly outlined in a credit policy manual and in the accounting policies and procedures.
- ✓ This is probably one of the highest risk areas since loan disbursements and collections are usually in large amounts.

42. **Expenditure Cycle:** As in all businesses, the expenditure cycle primarily includes payment for purchases and payroll.

- ✓ Purchasing policies should outline procedures for initiating requests for goods or services, the tender or bid process, approval levels, preparing and signing cheques or issuing cash, and the receipt and storage of goods.
- ✓ Payroll includes the range of human resource functions of hiring, training, compensating, evaluating, and terminating as well as the disbursement functions of accounting for all payroll costs, deductions, benefits, advances, and other adjustments.

43. **Conversion Cycle:** The risks, in asset management are often greater because the costs are higher.

- ✓ Controls begin with a pre-approved capital budget and criteria for the use of the assets.

- ✓ In addition, there should be policies for identification/inventory of assets, depreciation, disposition, and the procedures and recording of the disposition of assets.

44. **Treasury Cycle:** The treasury cycle focuses on the management of cash within the Financial Intermediary particularly through its management of liquid or near-liquid assets and liabilities. But there are a number of additional functions included in treasury, included, but not limited to, the following:

- Funds temporarily invested until needed for operations.
- Asset and liability management to mitigate liquidity or interest rate risk
- Selecting appropriate forms of financing.

45. This chapter deals with the management of cash and risk within NCRPB's treasury operations.

3.1 Treasury Risk Management

46. The following Treasury Management Practices (TMPS) as recommended by Charted Institute of Public Finance and Accountancy set out the manner in which the NCRPB will seek to achieve its treasury management policies and objectives and how it will manage and control these objectives. They establish in broad terms how the NCRPB's General Statement on Treasury Management Policy will be implemented. The schedules in section 4 of this manual establish detailed parameters within each delegated officers may undertake treasury operations in accordance with best practice treasury management practices.

47. The responsible officer in NCRPB should design, implement, and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annual on the adequacy/suitability thereof and will report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organization's objectives in accordance with agreed upon reporting procedures.

3.1.1 Liquidity Risk Management

48. The NCRPB will ensure that it has adequate, though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its objectives. It is recommended in its financing plan that NCRP explore short term lines of credit from its existing bankers to meet temporary mismatches

3.1.2 Interest Rate Risk Management

49. The NCRPB will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements. Despite best efforts of the NCRPB to keep its pricing competitive, there may be a situation where excess liquidity results in predatory pricing by number of other financial intermediaries.

50. There may be a situation where the absorption capacity of projects and borrowers for long tenor financing (linked to multilateral sources of finance) may not be high due to competition from such intermediaries. NCRPB should attempt to have a diversified resource base and a low blended cost of resources. This risk can be mitigated by diversifying NCRPBs product base and having the flexibility to alter on-lending rates across products in line with orevailing market rates.. There is a need to move away from the present fixed interest rate regime to a more market-responsive on-lending regime. The strategies for the

same have been discussed in the Financing Plan already submitted under this TA

3.1.3 Credit Risk

51. In case NCRPB decides to pursue an aggressive investment strategy based on a large scale borrowing program, it is important to ensure credit quality remains at acceptable levels, or NCRPB would be saddled with higher levels of NPAs. Therefore, it is important to put in place a suitable appraisal and credit risk management systems. Given the wide spectrum of projects, which can be supported by the fund, it is possible that viable projects in some sectors may take off vis-à-vis others. Further, adherence to strict appraisal norms and choice of appropriate credit enhancements will mitigate the risks of non-performing assets.

3.1.4 Exchange Rate Risk Management

52. The NCRPB will manage any exposure to fluctuations in foreign exchange rates so as to minimize any detrimental impact on its budgeted income/expenditure levels. The fund corpus of NCRPB envisages a sizable proportion of corpus as loan from multilaterals and bilateral. Since the loan would be denominated in foreign currencies (United States dollars, Euro, Japanese Yen) the costs associated with managing the foreign exchange volatility may be sizable. NCRPB needs to develop treasury management skills. Mitigating foreign exchange risk can be undertaken by entering into 5-10 year rolling hedging options available in the country today.

3.1.5 Government Guarantee as Credit Enhancement

53. In the past, NCRPB has financed projects based on credit support from the state governments in the form of guarantees. In the present situation, the fiscal constraints faced by state governments would make it increasingly difficult for them to provide guarantees to NCRPBs borrowers. NCRPB needs to alter its current paradigm of lending to infrastructure projects based on credit enhancements from state governments to that of inherent credit fundamentals of borrowers and cash flows of projects.

3.1.6 Asset-Liability Management Risk

54. While liabilities for the fund are largely long-tenor, their deployment would vary from 5-20 years. In such as scenario, asset-liability management would pose a challenge to NCRPB. The strategy should be to ensure its corpus is fully committed at all times. NCRPB should attempt to match the maturity profile of assets with its liability profile. The current practice is to lend for a tenor of 10 years based in similar tenors of its bond issues. Such practice should be continued for the overall resource pool as well as outlined in the product strategy.

3.1.7 Credit and Counter-Party Risk

55. The NCRPB regards as a prime objective of its treasury management activities to be the security of the principal sum it invests. NCRPB recognizes the need to have a formal counterparty policy. Accordingl, it will ensure that its counterparty lists and limits reflect a prudent attitude towards counterparties with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in approved instruments, methods and techniques section 4.1, below.

3.1.8 Refinancing Risk Management Risk

56. The NCRPB will ensure that any borrowing, private financing or partnership arrangements are negotiated, structured and documented, and the maturity profile of the

funds so raised are managed with a view to obtaining offer terms for renewal financing, if required, which are competitive and as favourable as can be reasonably achieved in the light of market conditions prevailing at the time. NCRPB treasury will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective.

3.1.9 Fraud, Error, Corruption and Contingency Management

57. NCRPB will ensure that it has identified circumstances, which may expose it to the risk of loss through fraud, error corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures and maintain effective contingency management arrangements to these ends.

3.2 Decision-Making and Analysis

58. The NCRPB will maintain full records of its treasury management decision and of the processes and process applied in reaching those decisions, both for purposes of learning from the past, and for demonstrating reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

3.3 Organization, Clarity and Segregation of Responsibilities

59. The NCRPB considers it essential for the purpose of effective control and monitoring of its treasury management activities, and for the reduction of risk, fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is clarity of treasury management responsibilities. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to execution and transmission of funds and administering of treasury management functions, and the audit and review of the treasury management function.

3.4 Reporting Requirements and Management Information Arrangements

60. The NCRPB Management and Treasury will ensure that regular reports are prepared and considered on the implementation of its treasury management policies, on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

61. As a minimum, NCRPB management will receive:

a) An annual statement on the strategy and plan to be pursued in the coming year;

b) An annual statement on the performance of the treasury management function, on the effects of the decisions taken, and the transactions executed in the past year, and on any circumstances of non-compliance with NCRPB's Treasury Management Policy Statement.

3.5 Cash Flow and Cash-Flow Management

62. Unless statutory or regulatory requirements demand otherwise, all monies in the hands of NCRPB will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared

on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with ensuring adequate liquidity.

3.6 Corporate Governance

63. The NCRPB is committed to the pursuit of proper corporate governance throughout its organization and to establishing principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness, transparency, integrity, and accountability. NCRPB management, together with other arrangements detailed in the schedule to this document, and the responsible officer will monitor and if/when necessary will report upon the effectiveness of treasury management arrangements.

4 SCHEDULES TO THE STATEMENT OF TREASURY MANAGEMENT PRACTICES

4.1 Schedule 1: Treasury Management Practice – Risk Management

4.1.1 Approved Activities of Treasury Management Operations

- Borrowing;
- Lending;
- Debt repayment and rescheduling;
- Consideration, approval and use of new financial instruments and treasury management techniques;
- Managing any underlying exchange rate risk (if any);
- Managing the underlying risk associated with the NCRPB's capital financing and the surplus funds activities;
- Managing cash flow; and,
- Banking activities.

4.1.2 Approved Instruments for Investments

64. Investments of surpluses will be with those bodies identified by NCRPB for its use through the annual investment strategy.

Specified Investments (All Maturities Will be up to One Year)
Money Market Funds
Term Deposits (callable deposits)
Government Securities

4.1.3 Approved Methods and Sources of Raising Financing

65. Finance will only be raised in accordance with pre-approved NCRPB guidelines and within the limit established by NCRPB and the GoI. The NCRPB has a number of preapproved methods and sources of capital finance. These are shown in the table below. All forms of funding will be considered dependent on the prevailing economic climate, regulations, and local considerations.

4.1.4 Borrowing Limits

66. The overall borrowing limits are to be established by the NCRPB and the project steering and monitoring group (PSMG). The borrowing limit will be reviewed and adjusted

on an annual basis based on recommendations by the appropriate treasury representative and submitted for approval to the Member Secretary/NCRPB Board.

On Balance Sheet	**Fixed**	**Variable**
Line of Credit Long Term	Yes	NCRPB should explore the feasibility
Bonds (Taxable and Tax Free)	Yes	
Short-Term Borrowings	Yes	NCRPB should explore the feasibility
Overdraft		
Off Balance Sheet		
Deferred Purchase	Yes	
Other Methods of Financing		
GoI Grants	Yes	
Multilateral Borrowing (WB/ADB)	Yes	
Bilateral Borrowing	Yes	

4.2 Schedule 2: Treasury Management Practice – Risk Management

67. Schedule 1 presents practices that NCRPB treasury should undertake for prudent risk management.

4.2.1 Liquidity

a) NCRPB will maintain sufficient cash balances to meet its daily cash requirements without recourse to borrowing.

b) Short-term borrowing will only be undertaken to cover unforseen cash requirement. It will not form part of any investment strategy.

c) Approved sources of short-term borrowing include current bankers to be listed.

4.2.2 Interest Rate

a) The minimum/maximum proportion of interest on borrowing which is subject to variable interest rate interest will be determined annually and be kept under review and reported to NCRPB through the Treasury Strategy.

b) At present, NCRPB prefers fixed interest rate borrowing.

c) The NCRPB should approve before the beginning of each financial year a number of treasury limits (on interest rates). These should be included in the Treasury Management Prudential Indicators.

4.2.3 Exchange Rate

a) NCPRB would have some exposure to exchange rate movements for its multi-lateral borrowings for which hedging products of maximum tenor available in the marlet should be used. In addition, NCRPB needs to explore the possibility of setting up an Exchange Rate Adjustment Reserve Fund into which some annual contributions linked to exchange rate movements can be made.

4.2.4 Refinancing

a) ***Debt/Other Capital Financing Maturity/Profiling, Policies and Practices:*** The NCRPB will seek to limit refinancing exposure by ensuring that only a limited amount of loan (bond) debt will mature in any one year.

b) This debt refinancing limit will be kept under review and reported annually as part of an Annual Treasury Strategy.

c) **Bond/Debt Redemption Reserve:** NCRPB will create bond and debt redemption reserves to the extent repayments are in excess of re-financing limits. In any case refinancing limits should not exceed short term borrowing limits available with NCRPB.

d) The responsible officer will by the beginning of each fiscal year produce a long-term borrowing strategy detailing:

   i. The projected borrowing/lending requirement for the subsequent year.

   ii. The recommended source and period over which such borrowing is to be effected.

   iii. An assessment of the impact of this borrowing on the maturity profile.

   iv. All loan debt rescheduling will be reported to the NCRPB management as part of the annual report.

e) ***Project Capital Investment I Lending Requirements***:

   i. The responsible officer for treasury will prepare a three-year plan for proposed capital (investment lending) for NCRPB.

   ii. The investment/lending plan will be used to prepare a three year revenue budget for loan charges of principal repayments, interest and expenses that will take into account the plans for lending, and loan repayments and forecasts of interest changes.

4.3 Schedule 3: Treasury Management Practice – Performance Measurements

4.3.1 Methodology for Evaluating Impact of Treasury Management Decisions

All treasury decisions are to be evaluated to determine the impact on:

1. The NCRPB's finances;
2. The aggregate risk profile of the NCRPB including sensitivity analysis; and,
3. The average debt rate and maturity profile.

4.3.2 Treasury Management Reporting

a) Treasury Management Strategy (Annual) – produced at the beginning of financial year.

b) Treasury Annual Review as reported by NCRPB – produced at the end of the financial year;

c) Monthly and other periodic reviews carried out by the finance team; and,

d) Internal audit reviews.

68. NCRPB's treasury should develop a brief 'Treasury Management Strategy" establishing specific treasury activities for the forthcoming financial year. This strategy should be developed by NCRPB management and the responsible financial officer.

69. The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of anticipated movement in both fixed- and shorter-term (variable) interest rates. For instance, NCRPB may consider postponing borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

70. The Treasury Management Strategy is concerned with the following elements:

- The Treasury Management Strategy is concerned with the following elements:
    - Current Treasury portfolio position;
    - The prospects for interest rates;
    - The prudential limits placed by NCRPB management on treasury management activities;
    - The expected borrowing strategy;
    - The expected near-term investment strategy;
    - The expectations for debt rescheduling; and,
    - Borrowing requirements.

4.3.3 Year-End Annual Report on Treasury Management Activity

71. An annual report will be presented to NCRPB management at the earliest predictable meeting after the end of the financial year. The content of this Annual Treasury Report includes:

- A comprehensive picture for the financial year of all treasury policies, plans, activities and results.
- Transactions executed and their current effects.
- Report on risk implications of decisions taken and transactions executed.
- Monitoring of compliance with approved policy, practices and statutory/regulatory requirements.
- Monitoring of compliance with powers delegated to officers.
- Explanation of future decisions taken on the organization. And,
- Measurement of performance.

4.3.4 Internal Reporting

72. The responsible officer will produce monthly and quarterly reports summarizing the borrowing and lending activity for the month/quarter.

4.3.5 Measuring Performance

Debt management:

- Average rate on external/internal debt.
- Average period to maturity of external debt.
- Average period to maturity of loans in previous year.

Benchmarks and calculation methodology (To be determined in consultation with NCRPB management).

4.4 Schedule 4: Decision Making and Analysis

4.4.1 Funding, Borrowing, Lending and New Instruments (Techniques)

73. The finance team has computerised treasury management arrangements. A member of the team will enter details of the all transactions carried out into the system. The record will have the following (nonexclusive list) details relative to each loan or investment:

- Counterparty;
- Interest rate;
- Repayment date;
- Term of loan;
- Loan type;
- Commission/fee (if any);
- Transfer arrangements (if any).
- Basis on which a particular deal was judger to be the correct one.

4.4.2 Processes to Be Pursued

- Cash flow forecasting – weekly and up to twelve months ahead.
  - The annual, monthly, and weekly cash flow projections are prepared from the previous years' cash flow records and adjusted for known changes in the levels of income and expenditure (See NCRPB cash flow table, below).
  - Adjustments are also made for changes in payments and receipts dates.

Crore	10000000
Interest on Domestic Borrowing	0.0898
Arranger Fee	0.0009
Stamp Duty	0.005
Amount of Amortised	0.1

NCRPB Cash flow

(In crores)

INFLOW	2007-08	2008-09	2009-10	2010-11	2011-12
Cash & Bank(opening bal)	250.02	85.15	484.72	201.88	147.14
Interest on Loans	103.17	146.40	278.64	395.56	466.79
Repayment of loans	206.64	220.84	243.27	469.61	614.77
Grants in Aid	150.00	150.00	150.00	150.00	150.00
Bonds & Debentures	200.00	200.00	400.00	400.00	400.00
Foreign Debt	0.00	0.00	500.00	500.00	500.00
Interest on DDR	0.00	4.63	10.75	19.94	32.13
FDR Redeemption	0.00	0.00	0.00	0.00	0.00
Total	909.83	807.01	2067.38	2136.99	2310.83
OUTFLOW					
Loans	705.00	200.00	1662.76	1662.76	1662.76
Bond Red. Res.(Domestic)	0.00	60.00	80.00	120.00	160.00
Bond Red. Res. (Foreign)	0.00	0.00	0.00	0.00	0.00
Interest on Dom. Borrowing	17.96	37.86	78.61	159.24	281.77
Interest on Foreign Funding	0.00	0.00	0.00	0.00	0.00
Establishment expenses	1.88	2.06	2.27	2.50	2.75
Aministrative expenses	2.36	2.60	2.86	3.14	3.46
FDR	95.74	0.00	0.00	0.00	0.00
Exps on market borrowing	1.75	1.33	2.37	2.51	2.51
Tax Payment	0.00	18.45	36.64	39.70	15.52
Total	824.69	322.30	1865.50	1989.85	2128.76
Net Cash Flow	85.15	484.72	201.88	147.14	182.08

- Investment of surplus cash balances.
- Temporary borrowing (if applicable) to cover cash deficits.
- Long-term borrowing to finance capital expenditures.
- Obtaining other forms of financing where that offers best value.
- Managing the debt portfolio (maturity profile, debt rescheduling opportunities, etc.).
- Monitoring of actual against budget for debt charges, interest earnings and debt management expenses.
- Monitoring of performance: average borrowing costs, average cost of capital, investment earnings rate.
- All transfers associated with treasury deals are to be certified by Director (Finance and Administration) and NCRPB management.

4.4.3 Issues to Be Addressed

74. In respect of borrowing and funding decisions, the responsible officer will:

- Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.
- Consider the merits and demerits of alternative forms of funding.
- Consider the ongoing revenue liabilities created, and the implications for the NCRPB's future plans and budgets.
- Seek to reduce the overall level of financing costs in initial borrowing decisions and by using debt restructuring.

ANNEXURES

Annex 1: Maintenance of Loan Register – Activities, Inputs, Processes and Outputs

<table>
<tr><th>Activity</th><th>Input</th><th>Processes</th><th>Output</th></tr>
<tr>
<td>Activity1: Issue of Loan Sanction Letter</td>
<td>
<table>
<tr><th>Description</th><th>Source</th><th>Periodicity</th><th>Remarks</th></tr>
<tr><td>Loan Application</td><td>Borrowers</td><td>After approval of the Project by the PSMG</td><td>As received from the Borrowing Agencies</td></tr>
<tr><td>Minutes of PSMG</td><td>PMC</td><td>Not fixed. Half yearly generally</td><td>Minutes duly approved after the Meeting of PSMG.</td></tr>
</table>
</td>
<td>

On receipt of PSMG Minutes and copies of Loan Application from the Borrower, Finance and Accounts Wing prepares detailed terms and conditions for the sanction and submits the draft sanction letter with terms and conditions for approval of the competent authority.
On receipt of approval from the competent authority, loan sanction is issued to the Borrower

</td>
<td>

Loan Sanction Letter with terms and conditions of the sanction
Appendices-Project Phasing, Estimated Expenditure, Loan Schedule, Repayment Schedules.
Other Standard Appendices regarding Security, Escrow Agreement etc.

</td>
</tr>
<tr>
<td>Activity-2: Signing of Loan Agreement & other Loan Documents</td>
<td>
<table>
<tr><th>Description</th><th>Source</th><th>Periodicity</th><th>Remarks</th></tr>
<tr><td>Acceptance letter from the Borrower</td><td>Borrower</td><td>As required</td><td>As received from the Borrowing Agencies</td></tr>
<tr><td>Security</td><td>Borrower</td><td>--do--</td><td></td></tr>
<tr><td>Draft Loan Agreement</td><td>--do--</td><td>--do--</td><td></td></tr>
<tr><td>Appendices</td><td>--do--</td><td>--do--</td><td></td></tr>
</table>
</td>
<td>

The acceptance letter and security furnished by the Borrower is scrutinized to see if it is proper and acceptable.
The Agreement papers and other documents are finalized and signed by the competent authority.
The loan installment release request is made to DDO for issue of Cheque.
The cheque handed over or amount electronically credited to loanee's account.

</td>
<td>

Loan agreement with Appendices duly Signed
Security Documents
Loan release request
Cheque/DD/Electronic Advice.

</td>
</tr>
<tr>
<td>Activity-3: Creation of Loan Account/Folio</td>
<td>
<table>
<tr><th>Description</th><th>Source</th><th>Periodicity</th><th>Remarks</th></tr>
<tr><td>Loan Release letter with cheque No. etc</td><td>Internal</td><td>As required</td><td>As received from the Borrowing Agencies</td></tr>
<tr><td>Terms & Conditions</td><td>--do--</td><td>--do--</td><td></td></tr>
</table>
</td>
<td>

On receipt of above inputs, a loan folio is opened and posted with following details;
Loan Amount paid,
DD/Cheque No/Electronic Advice No,
Period of Loan/ Moratorium period,
Rate of Interest / Annual Repayment installment (principal),

</td>
<td>

Loan Register/Folio for the supported projects

</td>
</tr>
<tr>
<td>Activity-4: Generation of Annual Repayment of Principal and interest Payment Schedule</td>
<td>

Loan Register/Folio

</td>
<td>

Generate Annual Principal Repayment schedule taking into account moratorium period.
Generate Interest Payment schedule

</td>
<td>

Letter to the Implementing Agency/Borrower along with with Schedules indicating amounts due and due date of payment.

</td>
</tr>
</table>

Activity	Input	Processes	Output
Activity-5: Posting of details of receipt of loan repayments and interest in the Loan Register	• Loan Register/Folio	• Post Loan Repayments as and when they come • Post Interest Payment schedule	• Posted Loan Accounts in Loan Register Folios
Activity-6: Calculation of Penal Interest, if any	• Loan Register/Folio	• Calculate and Post Penal Interests as and when applicable	• Posted Penal Interest for Loan Accounts in Loan Register Folios

Annex 2: Financing Rules

1. **Grants:** Section 21 (1) of NCRPB Act provides that the Central Government may make to the Board grants and loans to enable the Board to carry out its functions under this Act such as conducting surveys, studies, drawing plans and providing financial assistance to the States for implementation of plans.

2. Section 21 (2) further provides that the Central Government shall also pay to the Board such other sums as may be necessary for meeting the salaries of the Member-Secretary and other employees of the Board and other administrative expenses of the Board.

3. ***NCRPB Fund:*** Section 22(1) provides for constitution of NCRPB Fund wherein all receipts are to be credited viz.:

a. Any grants and loans made to the Board by the Central Government under section 21;
b. All sums paid to the Board by the participating States and the Union territory; and
c. All sums received by the Board from such other sources as may be decided upon by the Central Government in consultation with the participating States and the Union territory.

4. NCRPB Fund is required to be applied for:

a. Meeting the salaries, allowances and other remuneration of the Member- Secretary, officers and other employees of the Board and for meeting other administrative expenses of the Board. However, the total expenses shall not exceed the amount appropriated for this purpose under sub-section (2) of section 21;
b. Conducting surveys, preliminary studies and drawing up of plans for the National Capital Region;
c. Providing financial assistance to the participating States and the Union territory for the implementation of Sub-regional Plans and Project Plans; and
d. Providing financial assistance to the State concerned for the development of the counter-magnet area subject to such terms and conditions as may be agreed upon between such State and the Board.

5. **Borrowing Powers:** There is no mention of borrowing powers under Section 8 of the Act, which defines the powers of the Board. However, opinion of the Solicitor General of India (SGI) was sought in 1993 on two issues:

a. Whether the Board is competent to promote a company under the Companies Act to arrange and oversee financing of selected development projects in the NCR. and
b. Whether the Board is competent to raise funds by borrowing from financial institutions, commercial banks and general public in the shape of shares, debentures, fixed deposits receipts, loans and other money market instruments.

6. SGI's[5] opinion was "Generally, I am of the view that the Board does have the power to raise funds by borrowing. This would specifically come with the expression to arrange for financing through other sources of revenue". I must however point out that by virtue of Section 22(1) (C) the decision of the Central Government in consultation with the participating States and the Union Territory would be necessary to identify the sources from which sums may be received. Raising funds through shares and debentures is not appropriate so far as the Board is concerned". As such, in the opinion of the Solicitor General of India, borrowing powers are vested in the Board by virtue of Clause (e) of Section 7 (Functions of the Board) which reads as " to arrange for, and oversee, the financing of selected development projects in the National Capital Region through Central and State Plan funds and other sources of revenue".

7. **Investment Policy:** Amended Rule 32 empowers the Board to invest surplus money in the RBI, Govt. securities or in such other securities/instruments in accordance with the guidelines and directions issued by the Central Government from time to time in this regard. NCRPB, in March 2004, prepared guidelines for empanelment of public and private sector banks and fixed exposure ceilings for investment based on net worth, capital adequacy ratio and credit rating of instrument. Maximum tenure for investment of surplus money in public sector banks is one year and six months for private sector banks.

8. **Financial Assistance Policies:** Grants-in-Aid by NCRPB **-** Rule 34 of NCRPB Rules, 1985 empowers the Board to sanction grants-in-aid to the participating State Governments and to the State Governments having a counter-magnet area and the local authorities, urban development authorities, housing boards and such other authorities of the State Government for implementing the sub-regional plans and project plans or for developing the counter-magnet area. Procedure and conditions for sanctioning and issuance of utilization certificates for grants-in-aid are specified in Rule 35 to 37.

9. **Loans by NCRPB:** Rule 38 empowers the Board to sanction loans to governments and their agencies for implementing the sub regional plans and project plans or for developing counter magnet areas.

10. **Credit Enhancement:** Rules 41 and 42 make it mandatory to have adequate security and agreement for loans to State government agencies. Rule 42 prescribes that "loans to such agencies shall be sanctioned only against adequate security. The security to be taken shall ordinarily be at least 33 1/3% more than the amount of loan, provided that the Board may accept a State guarantee in lieu of the security".

11. *Form of Security* required from the State government agencies has not been prescribed in the Rules. However, the Reserve Bank of India has restricted State Governments from giving guarantees on behalf of state action agencies, in view of the FRBM Act and the current level of State finances. In the light of this RBI directive, the State governments are offering either a letter of comfort or more often, the agencies themselves are providing escrow mechanism, with a strong responsibility upon the escrow agent to ensure compliance.

[5] Solicitor General of India

12. **Interest Rate:** Rule 40 prescribes "Interest shall be charged at such rates as may be specified by the Board for any particular loan or for the class of loans concerned and the rate of interest prescribed by the Government from time to time shall invariably be adopted by the Board".

13. **Repayment Schedule and Delay Penalty:** The Board may allow, in deserving cases, a moratorium towards repayment of principal but not for the payment of interest. Each installment of loan shall be treated as a separate loan. The borrower shall arrange repayment of principal and loan annually. The Board is also empowered to provide for lower rate of interest in case of punctual payments and higher or penal rate of interest not less than 2 ½% per annum above the normal rate of interest. (Rule 45). Pre-payment of loan is, however, allowed by the Board on a case-to-case basis. Further, 1%[6] of the prepaid installment is charged as prepayment penalty.

[6] Prepayment charges at 1 per cent of the amount prepaid were levied from August 2004 and are not linked to reduction in market rates.