

## CIRCULAR

No. 59/91/Fin:-

Dated, Thiruvananthapuram, 26<sup>th</sup> October, 1991.

Sub:- Guarantee by State Government on behalf of Public Sector Undertaking/  
State Sponsored Bodies – Clarification – Issued.

Ref:- 1) Circular No. 10/90/Fin. Dated. 14.5.1991.

2) Letter No. SYD.PB/6097/M. 62-90/91 Dated. 30.5.1991 from  
Shri.P.Y. Padhye, Secretary, Secretary, Reserve Bank of India,  
Bombay.

In Para 3 of the Circular Cited, it was clarified that Government guarantee would not be provided as a collateral security to Public Sector Undertakings for availing of loans from Banks in cases where there are sufficient assets to hypothecate. It was also clarified that guarantee would be provided only to the extent of working capital requirements which were over and above the limit of assets available for hypothecation.

2. The Reserve Bank of India in its letter dated. 30./05/1991 referred to above has further clarified that in the normal course, the banks/financial institutions need not insist on Government guarantee in case of viable state sponsored units, provided working facilities are adequately State sponsored units, provided working facilities are adequate secured by hypothecation of current assets etc. Despite guarantee regardless of the viability of the borrowing entity/ project and the adequacy of the security, such case should be brought to the notice of the Reserve Bank of India.

3. Accordingly, it is reiterated that Government guarantee will not be provided to banks/financial institutions in case of viable State Sponsored units, if there are sufficient current assets for hypothecation. In cases where any bank or financial institution insists on Government guarantee regardless of the viability of the borrowing entity/project and the adequacy of the security, the Administrative Departments concerned may take up the matter with the Chief Officer, Department of Banking Operations and Development (DBOD), Reserve Bank of India, Central Office, Centre No.1, World Trade Centre, Cuffe Parade Bombay-400005.

M. MOHAN KUMAR,  
Commissioner & Secretary (Finance).

To

The Accountant General (A&E Audit), Kerala, Thiruvananthapuram.  
The Chief executives of all Public Sector Undertaking/Autonomous no dies.  
All Heads of Departments. Etc. Etc.