The Meghalaya Ceiling on Government Guarantees Act, 2025

Act No. 5 of 2025

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PART-IV

GOVERNMENT OF MEGHALAYA

LAW (B) DEPARTMENT

NOTIFICATION

The 24th March, 2025

No.LL(B).33/2024/2. – The Meghalaya Ceiling on Government Guarantees Act, 2025 (Act No. 5 of 2025) is hereby published for general information.

MEGHALAYA ACT NO. 5 OF 2025

(As passed by the Meghalaya Legislative Assembly)

Received the assent of the Governor on the 20th March, 2025.

Published in the Gazette of Meghalaya Extra-Ordinary issue dated 24th March, 2025.

THE MEGHALAYA CEILING ON GOVERNMENT GUARANTEES ACT, 2025

An

Act

An Act to provide for regulation of Government guarantees and other matters connected therewith or incidental thereto.

Preamble: WHEREAS it is expedient to provide for regulation of Government guarantees issued on behalf of the Government Departments, Public Sector Undertakings, Local Authorities, Statutory Boards & Corporations and Cooperative Institutions and for promoting fiscal discipline of the State;

Be it enacted by the Meghalaya State Legislative Assembly in the Seventy Sixth years of the Republic of India, as follows:

1. **Short title and Commencement.—**

   (1) This Act may be called "The Meghalaya Ceiling on Government Guarantees Act, 2025".

   (2) It shall come into force on such date as the Government may, by notification in the Official Gazette, appoint.

2. **Definition:** In this Act, unless the context otherwise, requires.—

   (a) 'Government' means the Government of Meghalaya.

   (b) 'Government Guarantee' includes the guarantee given by the State Government on behalf of Departmental Undertakings, Public Sector Undertakings, Local Authorities, Statutory Boards & Corporations, Cooperative Institutions and Other Authorities and Agencies under the Government of Meghalaya.

   (c) 'prescribed' means prescribed by rules made under this Act.

   (d) 'State' means the State of Meghalaya.

3. **Ceiling on Government Guarantees.—**

   (1) The Total Outstanding government guarantees as on the first day of April of any year shall not exceed 10 percent of the Gross State Domestic Product (GSDP) estimated for the year.

   (2) The Total fresh government guarantees issued in a year shall not exceed 5 percent of the Revenue Receipts or 0.5 per cent of Gross State Domestic Product (GSDP) estimated for the year, whichever is less.

   Provided that under extreme exigencies and occurrence of natural calamities of the order which require the Government to take immediate fiscal policy measures, the Government may exceed the ceilings prescribed under sub-section (1) and (2).

4. **Restrictions on Government Guarantees.—**

   Notwithstanding anything contained in any other acts:

   (1) Government guarantee shall ordinarily be extended by the Government on behalf of Departmental Undertakings, Public Sector Undertakings, Local Authorities, Statutory Boards & Corporations, Co-operative Institutions, Other Authorities and Agencies under the Government.

   Provided that no Government guarantees shall be extended to co-operative sector unless the Share Capital Contribution from non-governmental sources is not less than ten percent of the Total equity proposed.

(2) Guarantees shall be given only for the Principal amount and Normal interest component of the underlying loan.

(3) No Government guarantees shall be extended for external commercial borrowings.

(4) State Government shall not extend guarantee for more than 80 per cent of the project loan, depending on the conditions imposed by the lender.

(5) Guarantees once approved, shall not be transferred to any other agency without the prior approval of the Finance Department.

(6) No Government guarantees shall be given in respect of any loan of any Individual, Private Institutions or Private Companies.

(7) Government Guarantees should not be used to obtain finances through State owned entities, which substitutes budgetary resources of the State Government. Government Guarantees should not be allowed for creating direct liability / de-facto liability on the State.

5. Risk Categorization.—

(1) The Departments should classify the projects / activities as high risk, medium risk and low risk and assign appropriate risk weights before extending guarantees.

(2) Risk categorization should also take into consideration past record of defaults.

(3) Risk associated with guarantee proposal including the probability of future payouts should be thoroughly assessed by concerned Departments.

6. Guarantee Fee.—

(1) Guarantee Fee is an essential and pre-requisite condition for availing Government Guarantee. Therefore, wherever guarantee is to be given by the Government, the borrower shall enter into an agreement with the Government for payment of Guarantee Fee on the Principal amount of the loan drawn and loan outstanding from time to time. The Departments must ensure before recommending a proposal of Guarantee to Finance Department that the cost of applicable Guarantee Fee has been taken into consideration while calculating the total cost of the loan.

(2) The Government shall charge a minimum Guarantee fee of 1 (one) percent of the total guaranteed amount for the first year, which shall not be waived under any circumstances. The fee shall be deposited in the Treasury in advance, *via* Treasury Challan under the Head of Account "0075-Miscellaneous General Services-108-Guarantee Fees (1) Receipts relating to Guarantees given by the Government, before the execution of the Guarantee Deed.

(3) For the subsequent financial years, Guarantee Fee shall be fixed at 0.5 percent per annum on the Outstanding amount of the Principal and Interest and the same should be deposited in the Treasury on or before 31st March every year.

(4) Depending on the default risk of the project the Government may, by notification, specify commission at an enhanced rate.

Explanation:

For the purpose of this section 'default risk' means the probability of default by the borrower on whose behalf the Government Guarantee is given, depending on the amount borrowed, the type of industry and the economic situations.

7. Guarantee Redemption Fund.—

(1) The Government, shall, by notification in the Gazette, constitute a fund called the 'Guarantee Redemption Fund (GRF)'.

(2) The Guarantee Fee charged under section 6 shall form the corpus of the Guarantee Redemption Fund and it shall be remitted in the Public Accounts of the State.

(3) The administration of Guarantee Redemption Fund shall be in such manner as may be prescribed.

8. Responsibility of the Administrative Department.—

(1) The obligations of the borrower to service the loan and the guarantee fee, and monitoring the utilization of the guaranteed loans and adherence to the terms and conditions of the guarantee shall fall on the Administrative Department. For this purpose, the Administrative Department shall develop a proper database for capturing all guarantees extended by the State Government. A Monitoring Unit (MU) shall be designated at the State level which shall be responsible for tracking all the guarantees viz., compilation, consolidation, maintenance of the data base on guarantees and monitoring the same on a continuous basis.

(2) The Administrative Department shall classify the projects/activities as high risk, medium risk and low risk and assign appropriate risk weights before extending guarantees.

(3) The Administrative Departments shall instruct the State Undertakings, whose borrowings are guaranteed, to set up an arrangement for provisions for meeting possible shortfalls in project earnings. The borrowing State Enterprises, with the approval of Finance Department, should set up escrow accounts with predetermined and regular contributions from project earnings. In case revenue of the project suffers for any reason, repayments could be made out of these accounts before resorting to State Government guarantees.

(4) To improve the credibility of the data on State Government guarantees, Departments shall ensure that all Government guarantees is reviewed every year. A copy of the Review Report disclosing data relating to guarantees approved by the Financial Adviser of the concerned Department shall be forwarded to Finance Department by 30th April every year for the previous financial year.

9. Power of Government to make rules.—

(1) The Government may, by notification in the Meghalaya Gazette, make rules for the purpose of carrying into effect the provisions of this Act.

(2) Every rule made under this Act shall be laid, as soon as may be after it is made, before the Legislative Assembly of Meghalaya, while it is in session, for a total period of fourteen days, which may be comprised in one session or in two successive sessions, and if, before the expiry of the session in which it is so laid or the sessions immediately following, the Legislative Assembly of Meghalaya makes any modification in the rule, or decides that the rule should not be made, the rule shall thereafter have effect only in such modified form or be of no effect, as the case may be. However, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.

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