

**A Study on Risk Assessment Framework for
Government Guarantees 1999 - 2008:
Government of Karnataka, India**

**Submitted as part of summer internship in
Fiscal Policy Institute, Bangalore**

by

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Letter of Transmittal

June 05, 2009

Mr. P.R. Devi Prasad IES
Director
Fiscal Policy Institute
Fiscal Policy Analysis Cell
Finance Department
Government of Karnataka

Dear Sir,

**Submission of the report titled 'A Study on Risk Assessment
Framework for Government Guarantees 1999 - 2008:
Government of Karnataka, India'**

I am pleased to submit herewith the report titled, 'A Study on Risk Assessment Framework for Government Guarantees 1999- 2008: An Insight from the Government of Karnataka, India'. I hereby declare that this is an original work done by me and the findings of this work have not been previously submitted for any publication.



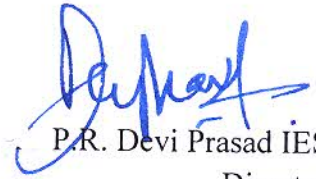
(Kalyan Ram R)
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Certificate

This is to certify that the project titled '**A Study on Risk Assessment Framework for Government Guarantees 1999 – 2008: Government of Karnataka, India**' submitted by Mr. Kalyan Ram. R as a part of Summer Internship is the result of the work done by him at Fiscal Policy Institute, Fiscal Policy Analysis Cell, Finance Department, Government of Karnataka, under my guidance.

Place: Bangalore

Date: 5TH June, 2009



P.R. Devi Prasad IES

Director

Fiscal Policy Institute
Fiscal Policy Analysis Cell
Finance Department
Government of Karnataka

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Executive Summary

This study aims to develop a framework to assess the fiscal risks involved in issuing government guarantees. Presently, there appears to be no operational frameworks or protocols in Karnataka to perform risk assessment for government guarantees.

The legislative framework that governs the sanction of loan guarantee in Karnataka is analyzed. The salient features of Karnataka Ceiling on Government Guarantee Act, 1999, Karnataka Fiscal Responsibility Act, 2002 are discussed in this report. Recommendations given in the following reports are considered in proposing the framework.

- RBI Report of the Technical Committee on State Government Guarantees - Feb 1999
- RBI Report of the Group to Assess the Fiscal Risk of State Government Guarantees - July 2002

A structured interview was carried out with the officials from various departments in the Government of Karnataka to gain an understanding of the current policies in government guarantees and fiscal risks. Based on the responses obtained from these officials, and by reviewing the existing literature on risk assessment, a framework has been proposed. The following steps constitute the proposed framework.

- Identify the important risks associated with the project; risks can be financial, business, operational or macroeconomic in nature. Prioritize the associated risk and assign percentage weightage to each risk.

- Rate the risks identified for the project on a ten point scale where 1 refers to “very high risk” and 10 refers to “very low risk”. Compute the weighted risk rating score using the identified risk’s weightage and rating. Sanction loan guarantee if weighted risk rating score is above the threshold value.

- Amount to be maintained in the Guarantee Redemption Fund can be computed by using weighted risk rating score and amount outstanding for each guarantee.

- Identify the information to be disclosed to ensure fiscal discipline and transparency in the process.

