WMA Scheme, 2001 for State Governments

January 10, 2001

The present Ways and Means Advances (WMA) Scheme to the State Governments was brought in with effect from April 1, 1999 on the basis of the recommendations of the Vithal Committee and subsequent consultations RBI had with State Finance Secretaries and Government of India officials.

Background

Taking into account subsequent requests from several State Governments and based on the review framework indicated by Vithal Committee, the matter was discussed in the latest meeting of State Finance Secretaries held on November 3 and 4, 2000 at RBI. It was agreed in the said Conference, which was also attended by the officials of Government of India, that an Informal Group of State Finance Secretaries be constituted to review the existing Scheme and make recommendations and finalise its report before end December 2000. In the Conference, there was a request for immediate implementation of revised WMA and Overdraft Scheme.

The Informal Group of the State Finance Secretaries submitted its report to RBI and the Group had the benefit of detailed discussions with the officials of the Ministry of Finance.

Decision taken

The RBI has considered all the recommendations of the Group and the following decisions have been taken. A summary account of the decisions taken is as under.

Normal WMA limits

As recommended by the Group, it has been decided that the normal WMA limits may be worked out taking into account the three years' average of revenue receipts and capital expenditure for fiscal years 1997-98, 1998-99 and 1999-2000 and to this base a ratio of 2.4 per cent may be applied for the non-special category States and 2.9 per cent for the special category States. Accordingly, the total revised normal WMA limits worked out to Rs.5,296 crore as against the present limits of Rs.3,941 crore representing an increase of Rs.1,355 crore or about 34 per cent.

Yearly revision

RBI has also accepted the recommendation of the Group that the maximum ratio of 2.4 per cent and 2.9 per cent should be frozen for the next three years and every year the Reserve Bank of India will revise the normal WMA limits taking into account the moving average of revenue receipts and capital expenditure for the latest three years. However, RBI would review this arrangement after two years.

Overdraft Regulation Scheme

Keeping in view the recommendations of the Group and the requests made by States from time to time and taking into account the problems being experienced currently in cash flow, it has been decided to increase the present 10 working days' restriction to 12 working days as an *ad hoc* measure subject to review.

Furthermore, as recommended by the Group, for facilitating cash flow management, it has been decided to extend the three days' restriction for bringing down the overdraft level within the level of 100 per cent normal WMA limit to five days under the Overdraft Regulation Scheme.

The Vithal Committee had recommended that no State shall be allowed to run overdraft with RBI for more than 20 working days during a quarter in a financial year. While implementing the Vithal Committee's recommendation it had been decided to defer the decision for two years. The Group of Finance Secretaries has recommended that the decision could be deferred for one more year. The recommendation has been accepted by RBI and it has been decided to extend the deferment of 20 days' restriction upto April 2002 under the Overdraft Regulation Scheme.

Special WMA and Minimum Balance

It has been decided that the present Scheme of special WMA and Minimum Balance would continue.

Effectiveness

It has been decided that the revised limits and above revisions would come into force from February 1, 2001.

Review

RBI has also decided to review the entire formula for WMA in light of emerging conditions in State finances after two years with a view to bringing the revision in to effect from the third year.

WMA Scheme 2001

The revised WMA Scheme, which will be called "***WMA Scheme 2001***" will come into effect from February 1, 2001. The main features of the Scheme are as under:

(i) Taking into account the three years' average of revenue receipts and capital expenditure for fiscal years 1997-98, 1998-99 and 1999-2000 and applying to this base a ratio of 2.4 per cent for non special category States and 2.9 per cent for special category States, the total normal WMA limits work out to Rs.5,296 crore.

(ii) The special WMA continues to be linked to the investments made by State Governments in the Government of India Securities i.e. Dated Securities and Treasury Bills.

(iii) Overdraft Regulation Scheme which will be applicable to the State Governments with effect from February 1, 2001 is as under:

a) RBI will allow a State to run an overdraft for 12 consecutive working days instead of 10 days at present. In case the overdraft appears in the State's account and remains beyond 12 consecutive working days as per the current practice, RBI and its agencies shall stop payments on behalf of the concerned State Governments. This is an ad hoc measure subject to review.

b) The overdraft shall not exceed 100 per cent of normal WMA limit. On the first occasion that this is exceeded in a financial year, RBI shall advise the State that the overdraft amount should not exceed 100 per cent of normal WMA limit on any subsequent occasion.

c) Without prejudice to clause (a) above, if during the financial year, the amount of overdraft exceeds 100 per cent of WMA limit on a second or any subsequent occasion, the State shall be given five working days' notice instead of the present notice period of three working days to bring down the overdraft amount within the level of 100 per cent of normal WMA limit. If this is not adhered to, payments will be stopped.

The WMA Scheme 2001 is subject to review in its entirety at the end of two years with a view to bringing the revision in to effect from the third year.

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