Consolidated Sinking Fund

The activities of the Consolidated Sinking Fund are monitored by the Comptroller and Audit General of India (CAG). It must be noted that for withdrawing the amount from the CSF, state governments need to get sanctions from the Parliament. Besides, the funds can only be used for the redemption of loans and not for any other purpose.

What is Consolidated Sinking Fund PIB?

One of India's most essential government reserves is the consolidated sinking fund. The finance for this fund comes from indirect and direct taxes. A consolidated sinking fund or CSF covers the entire expenditure of the Government.

Even the Government needs approval from the Parliament to withdraw some amount from this fund. Every authority can set up their individual Consolidated Fund with matching features.

Consolidated Sinking Fund RBI Objectives

An extended idea of a consolidated sinking fund PIB is to aid states wherein the Government has problems handling their finances, including debt.

- Promote economic restructuring in these states, especially those with chronic remuneration obligations.
- With the creation of CSF, it was demonstrated that they would reduce all of their debts.
- Launching a government-backed sinking fund is to help acquire the underlying goals of constitutional changes by permitting local governments to operate as independent-governing entities.

History of Consolidated Sinking Fund PIB

The history of the Consolidated Sinking Fund dates back to the 10th Finance Commission of 1999-2000, in which the RBI first proposed the idea of CSF.

- The purpose of this fund was laid out to be the saving of market loans of states.
- Initially, only 11 states participated in Consolidated Sinking Fund, namely Meghalaya, Chhattisgarh, Goa, Tripura, Uttaranchal, Arunachal Pradesh, Assam, Maharashtra, Andhra Pradesh, Mizoram, and West Bengal.
- As of 2020, 23 states of India have set up Consolidated Sinking Fund and have accumulated reserves worth INR 1.3 Lakh Crores.
- It was suggested that all states should sustain CSF by the 12th Finance Commission.
- It is one of the choices open to state governments when reordering their debts and acts as a backup to protect monetary judgment.

Salient Features of Consolidated Sinking Fund

The Constitution of India introduced three main types of central government funds:

- The Public Accounts of India (Article 266)
- The Consolidated Fund of India (Article 266)
- The Contingency Fund of India (Article 267)

The Consolidated Sinking Fund can be distinguished from other funds based on the following features:

- The state's consolidated fund and public accounts must not be used to finance the Consolidated Sinking Fund.
- 1-3% of the exceptional market loans of the state government can be contributed to the Consolidated Sinking Fund.

The Consolidated Sinking Fund should necessarily be used to:

- Repay public debt.
- Create a buffer for the amortization of liabilities.
- Ensure good financial governance.
- Consolidate finance.
- Restructure the finance of states.
- Encourage self-governance in local bodies.

Consolidated Sinking Fund of India - Advantages

Below listed are some of the crucial benefits of the Consolidated Sinking Fund, reflecting the fund's significance to the finances of state governments:

Default Risk is Low:

With Consolidated Sinking Fund, reserves will be set aside to meet the needs of the securities at development; therefore, the risk of a default on the development target will be reduced.

Creditworthiness/Low-Interest Rate on Consolidated Sinking Fund:

The financing cost on the bonds is significantly lowered due to the availability of security and low default risk.

Helps State Governments to Overcome Fiscal Deficits:

Fiscally strong state governments can have their governance rated by accredited rating agencies and attract better rates in bond auctions.

- Setting up Consolidated Sinking Fund is an intelligent step by state governments to manage public debts and liabilities.
- This fund helps control the financial health of state governments and overcome their fiscal deficits.
- Besides, it encourages self-governance of the local bodies by providing them resources necessary to function correctly.
- In a nutshell, Consolidated Sinking Fund set by the RBI is resourceful for the welfare of state governments.

Example of Consolidated Sinking Fund (CSF)

- For instance, the Uttar Pradesh Government allocated Rs.200 crore bonds for ten years from 2022 to 2032.
- In that case, the Government will have to spend 200 crore rupees on these investors in 2032 (interest is not included).
- Therefore, the state government will deposit 10 crore rupees annually in the sinking fund to handle this task.
- In 10 years, the government will be able to collect Rs.100 crore in this budget by 2032 by depositing 10 crore rupees annually.
- The UP Government will have to arrange only 100 crore rupees more in 2032 as the fund has already accumulated Rs.100 crore.