Policy Initiatives - Reserve bank of India (Longer Version)

The following are the important initiatives taken by the RBI in Agriculture and Rural Sector:

1. COVID19 Regulatory Package - Asset Classification and Provisioning

With reference to the Governor's Statement of April 17, 2020 announcing certain additional regulatory measures aimed at alleviating the lingering impact of Covid19 pandemic on the businesses and financial institutions in India, consistent with the globally coordinated action committed by the Basel Committee on Banking Supervision. In this regard, the detailed instructions with regard to asset classification and provisioning are as follows:

(i) Asset Classification under the Prudential norms on Income Recognition, Asset Classification (IRAC)

2. In terms of the circular DOR.No.BP.BC.47/21.04.048/2019-20 dated March 27, 2020 ('Regulatory Package'), the lending institutions were permitted to grant a moratorium of three months on payment of all term loan instalments falling due between March 1, 2020 and May 31, 2020 ('**moratorium period'**). As such, in line with the clarification provided by the Basel Committee on Banking Supervision, in respect of all accounts classified as standard as on February 29, 2020, even if overdue, the moratorium period, wherever granted, shall be excluded by the lending institutions from the number of days past-due for the purpose of asset classification under the IRAC norms.

3. Similarly in respect of working capital facilities sanctioned in the form of cash credit/overdraft ("CC/OD"), the Regulatory Package permitted the recovery of interest applied during the period from March 1, 2020 upto May 31, 2020 to be deferred ('**deferment period**'). Such deferment period, wherever granted in respect of all facilities classified as standard, including SMA, as on February 29, 2020, shall be excluded for the determination of out of order status.

4. NBFCs which are required to comply with Indian Accounting Standards (IndAS) shall, as hitherto, continue to be guided by the guidelines duly approved by their Boards and as per ICAI Advisories for recognition of the impairments.

(ii) Provisioning

5. In respect of accounts in default but standard where provisions of paragraphs (2) and (3) above are applicable, and asset classification benefit is extended, lending institutions shall make general provisions of not less than 10 per cent of the total outstanding of such accounts, to be phased over two quarters as under:

(i) Quarter ended March 31, 2020 – not less than 5 per cent

(ii) Quarter ending June 30, 2020 – not less than 5 per cent

6. The above provisions may be adjusted against the actual provisioning requirements for slippages from the accounts reckoned for such provisions. The residual provisions at the end of the financial year can be written back or adjusted against the provisions required for all other accounts.
7. The above provisions shall not be reckoned for arriving at net NPAs till they are adjusted against the actual provisioning requirements as under paragraph 6 above. Further, till such adjustments, these provisions shall not be netted from gross advances but shown separately in the balance sheet as appropriate.
8. All other provisions required to be maintained by lending institutions, including the provisions for accounts already classified as NPA as on February 29, 2020 as well as subsequent ageing in these accounts, shall continue to be made in the usual manner.

Other Conditions

9. The exclusions permitted in terms of para 2 and 3 above shall be duly reckoned by the lending institutions in their supervisory reporting as well as reporting to credit information companies (CICs); i.e., the days past due and SMA status, where applicable, as on March 1, 2020 will remain unchanged till May 31, 2020.
10. The lending institutions shall suitably disclose the following in the 'Notes to Accounts' while preparing their financial statements for the half year ending September 30, 2020 as well as the financial years 2019-20 and 2020-2021:
(i) Respective amounts in SMA/overdue categories, where the moratorium/deferment was extended, in terms of paragraph 2 and 3;
(ii) Respective amount where asset classification benefits is extended.
(iii) Provisions made during the Q4FY2020 and Q1FY2021 in terms of paragraph 5;
(iv) Provisions adjusted during the respective accounting periods against slippages and the residual provisions in terms of paragraph 6.

(RBI/2019-20/220 DOR.No.BP.BC.63/21.04.048/2019-20 dated 17 April 2020)

2. Interest Subvention (IS) and Prompt Repayment Incentive (PRI) for Short Term Crop Loans during the years 2018-19 and 2019-20: Extended Period on account of Covid-19

With reference to RBI circular FIDD.CO.FSD.BC.No.15/05.02.001/2018-19 dated March 7, 2019 regarding Interest Subvention Scheme for Short Term Crop Loans during the years 2018-19 and 2019-20.
2. In the wake of the nationwide lockdown due to outbreak of Covid -19 pandemic and the resultant restrictions imposed on movement of people, many farmers are not able to travel to bank branches for payment of their short term crop loan dues. As per RBI circular dated March 27, 2020 regarding Covid 19-Regulatory Package, moratorium has been

granted for three months on payment of installments falling due between March 1, 2020 and May 31, 2020 in respect of all term loans including short term crop loans.
3. Accordingly, to ensure that farmers do not have to pay penal interest and at the same time continue getting the benefits of interest subvention scheme, Government has decided to continue the availability of 2% IS and 3% PRI to farmers for the extended period of repayment upto 31.05.2020 or date of repayment, whichever is earlier, for short term crop loans upto ₹3 lakh per farmer which have become due between March 01, 2020 and May 31, 2020.
4. Banks are therefore advised to extend the benefit of IS of 2% and PRI of 3% for short term crop loans upto ₹ 3 lakh to farmers whose accounts have become due or shall become due between March 1, 2020 and May 31, 2020

(RBI/2019-20/224 FIDD.CO.FSD.BC.No.24/05.02.001/2019-20 dated April 21, 2020)

3. COVID-19 – Regulatory Package

With reference to the Circular DOR.No.BP.BC.47/21.04.048/2019-20 dated March 27, 2020 and Circular DOR.No.BP.BC.63/21.04.048/2019-20 dated April 17, 2020 announcing certain regulatory measures in the wake of the disruptions on account of COVID-19 pandemic and the consequent asset classification and provisioning norms. As announced in the Governor's Statement of May 22, 2020, the intensification of COVID-19 disruptions has imparted priority to relaxing repayment pressures and improving access to working capital by mitigating the burden of debt servicing, prevent the transmission of financial stress to the real economy, and ensure the continuity of viable businesses and households. Consequently, the detailed instructions in this regard are as follows:

(i) Rescheduling of Payments – Term Loans and Working Capital Facilities
2. In view of the extension of lockdown and continuing disruption on account of COVID-19, all commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, All-India Financial Institutions, and Non-banking Financial Companies (including housing finance companies) ("lending institutions") are permitted to extend the moratorium by another three months i.e. from June 1, 2020 to August 31, 2020 on payment of all instalments in respect of term loans (including agricultural term loans, retail and crop loans). Accordingly, the repayment schedule for such loans as also the residual tenor, will be shifted across the board. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.
3. In respect of working capital facilities sanctioned in the form of cash credit/overdraft ("CC/OD"), lending institutions are permitted to allow a deferment of another three months, from June 1, 2020 to August 31, 2020, on recovery of interest applied in respect

of all such facilities. Lending institutions are permitted, at their discretion, to convert the accumulated interest for the deferment period up to August 31, 2020, into a funded interest term loan (FITL) which shall be repayable not later than March 31, 2021.

(ii) Easing of Working Capital Financing

4. In respect of working capital facilities sanctioned in the form of CC/OD to borrowers facing stress on account of the economic fallout of the pandemic, lending institutions may, as a one-time measure,

(i) recalculate the 'drawing power' by reducing the margins till August 31, 2020. However, in all such cases where such a temporary enhancement in drawing power is considered, the margins shall be restored to the original levels by March 31, 2021; and/or,

(ii) review the working capital sanctioned limits upto March 31, 2021, based on a reassessment of the working capital cycle.

5. The above measures shall be contingent on the lending institutions satisfying themselves that the same is necessitated on account of the economic fallout from COVID-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from COVID-19.

6. Lending institutions may, accordingly, put in place a Board approved policy to implement the above measures.

Asset Classification

7. The conversion of accumulated interest into FITL, as permitted in terms of paragraph 3 above, and the changes in the credit terms permitted to the borrowers to specifically tide over economic fallout from COVID-19 in terms of paragraph 4 above, will not be treated as concessions granted due to financial difficulty of the borrower, under Paragraph 2 of the Annex to the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 dated June 7, 2019 ('**Prudential Framework'**), and consequently, will not result in asset classification downgrade.

8. In respect of accounts classified as standard as on February 29, 2020, even if overdue, the moratorium period, wherever granted in respect of term loans, shall be excluded by the lending institutions from the number of days past-due for the purpose of asset classification under the IRAC norms. The asset classification for such accounts shall be determined on the basis of revised due dates and the revised repayment schedule.

9. Similarly, in respect of working capital facilities sanctioned in the form of cash credit/overdraft ("CC/OD"), where the account is classified as standard, including SMA, as on February 29, 2020, the deferment period, wherever granted in terms of paragraph 3 above shall be excluded for the determination of out of order status.

10. All other provisions of circulars dated March 27, 2020 and April 17, 2020 shall remain applicable *mutatis mutandis*.

(RBI/2019-20/244 DOR.No.BP.BC.71/21.04.048/2019-20 dated May 23 , 2020.)

4. Resolution Framework for COVID-19-related Stress – Financial Parameters

RBI envisages constitution of an Expert Committee by the Reserve Bank to make recommendations on the required financial parameters with sector specific benchmark ranges for such parameters to be factored in the resolution plans in respect of borrowers eligible under Part B of the Annex to the Resolution Framework.
2. The Reserve Bank had accordingly set up an Expert Committee with Shri K. V. Kamath as the Chairperson, as announced in the press release dated August 7, 2020. The Expert Committee has since submitted its recommendations to the Reserve Bank on September 4, 2020, which have been broadly accepted by the Reserve Bank.
3. Accordingly, all lending institutions shall mandatorily consider the following key ratios while finalizing the resolution plans in respect of eligible borrowers under Part B of the Annex to the Resolution Framework

Key Ratio	**Definition**
Total Outside Liabilities / Adjusted Tangible Net Worth (TOL/ATNW)	Addition of long-term debt, short term debt, current liabilities and provisions along with deferred tax liability divided by tangible net worth net of the investments and loans in the group and outside entities.
Total Debt / EBITD	Addition of short term and long-term debt divided by addition of profit before tax, interest and finance charges along with depreciation and amortisation.
Current Ratio	Current assets divided by current liabilities
Debt Service Coverage Ratio (DSCR)	For the relevant year addition of net cash accruals along with interest and finance charges divided by addition of current portion of long term debt with interest and finance charges.
Average Debt Service Coverage Ratio (ADSCR	Over the period of the loan addition of net cash accruals along with interest and finance charges divided by addition of current portion of long term debt with interest and finance charges.

4. The sector-specific thresholds (ceilings or floors, as the case may be) for each of the above key ratios that should be considered by the lending institutions in the resolution assumptions with respect to an eligible borrower are given in the **Annex**. In respect of those sectors where the sector-specific thresholds have not been specified, lending institutions shall make their own internal assessments regarding TOL/ATNW and Total Debt/EBITDA. However, the current ratio and DSCR in all cases shall be 1.0 and above, and ADSCR shall be 1.2 and above.

5. Lending institutions are free to consider other financial parameters as well while finalizing the resolution assumptions in respect of eligible borrowers apart from the above mandatory key ratios and the sector-specific thresholds that have been prescribed. The above requirements are applicable even in cases when there is only one lending institution with exposure to an eligible borrower.
6. The ratios prescribed in paragraph 4 are intended as floors or ceilings, as the case may be, but the resolution plans shall take into account the pre-Covid-19 operating and financial performance of the borrower and impact of Covid-19 on its operating and financial performance at the time of finalising the resolution plan, to assess the cashflows in subsequent years, while stipulating appropriate ratios in each case.
7. Given the differential impact of the pandemic on various sectors/entities, the lending institutions may, at their discretion, adopt a graded approach depending on the severity of the impact on the borrowers, while preparing or implementing the resolution plan. Such graded approach may also entail classification of the impact on the borrowers into mild, moderate and severe, as recommended by the Committee.
8. Lending institutions are expected to ensure compliance to TOL/ATNW agreed as per the resolution plan at the time of implementation itself. Nevertheless, in all cases, this ratio shall have to be maintained as per the resolution plan by March 31, 2022 and on an ongoing basis thereafter. However, wherever the resolution plan envisages equity infusion, the same may be suitably phased-in over this period. All other key ratios shall have to be maintained as per the resolution plan by March 31, 2022 and on an ongoing basis thereafter.
9. The compliance in regard to meeting the agreed ratios must be monitored as financial covenants on an ongoing basis, and during subsequent credit reviews. Any such breach not rectified within a reasonable period, in terms of the loan contract, will be considered as financial difficulty.

Other Clarifications - Applicability of ICA and Escrow account
10. The various requirements of the Resolution Framework, especially the mandatory requirement of ICA, wherever applicable, and maintenance of an escrow account after implementation of a resolution plan, shall be applicable at the borrower-account level, i.e. the legal entities to which the lending institutions have exposure to, which could include a special purpose vehicle having a legal-entity status, set up for a project.
11. It is further clarified that signing of ICA is a mandatory requirement for all lending institutions in all cases involving multiple lending institutions, where the resolution process is invoked, and the requirement of additional provisions if the ICA is not signed within 30 days of invocation does not substitute for the mandatory nature of ICA. Compliance with this regulatory requirement shall be assessed for all lending institutions as part of the supervisory review.

(RBI/2020-21/34 DOR.No.BP.BC/13/21.04.048/2020-21 dated September 07, 2020)

5. Interest Subvention (IS) and Prompt Repayment Incentive (PRI) for Short Term Loans for Agriculture including Animal Husbandry, Dairy and Fisheries for extended period on account of Covid-19

i. RBI advising banks on the Governments' decision to continue the availability of 2% IS and 3% PRI to farmers for the extended period of repayment upto May 31, 2020 or date of repayment, whichever is earlier.

ii. In view of the extension of lockdown and continuing disruption on account of COVID-19, the RBI *vide* circular dated May 23, 2020 has permitted all lending institutions to extend moratorium by another three months, i.e., upto August 31, 2020. In order to ensure that farmers do not pay higher interest during the extended moratorium period, the Government has decided to continue the availability of 2% IS and 3% PRI to farmers for the extended period of repayment upto August 31, 2020 or date of repayment, whichever is earlier. This benefit will be applicable to all short term loans for Agriculture and Animal Husbandry, Dairy and Fisheries (AHDF) upto ₹3 lakh per farmer (upto ₹2 lakh for AHDF farmers).

(RBI/2019-20/ 250 - FIDD.CO.FSD.BC.No. 25/05.02.001/2019-20 dated June 4, 2020)

6. Master Circular – Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM)

The Master Circular has been suitably updated by incorporating the modifications in DAY-NRLM scheme issued up to September 18, 2020, which are listed in the appendix and also been placed on website (https://www.rbi.org.in).

(RBI/2020-21/39 - FIDD.GSSD.CO.BC. No.06/09.01.01/2020-21 dated September 18,2020)

7. Credit flow to Micro, Small and Medium Enterprises Sector

i. RBI vide their circular RPCD.PLNFS.BC.No.63/06.02.31/2006-07 dated April 4, 2007 containing definition of Micro, Small and Medium Enterprises as per Section 7 (I) of the Micro Small and Medium Enterprises Development Act, 2006.

ii. Government of India (GoI), vide Gazette Notification S.O. 2119 (E) dated June 26, 2020, has notified new criteria for classifying the enterprises as Micro, Small and Medium enterprises. The new criteria will come into effect from July 1, 2020. The details are as under:

a. Classification of enterprises

An enterprise shall be classified as a Micro, Small or Medium enterprise on the basis of the following criteria, namely:

(i) a *micro enterprise*, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;
(ii) a *small enterprise*, where the investment in plant and machinery or equipment does not
exceed ten crore rupees and turnover does not exceed fifty crore rupees; and
(iii) a *medium enterprise*, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees

b. Composite criteria of investment and turnover for classification

(i) A composite criterion of investment and turnover shall apply for classification of an enterprise as micro, small or medium.
(ii) If an enterprise crosses the ceiling limits specified for its present category in either of the two criteria of investment or turnover, it will cease to exist in that category and be placed in the next higher category but no enterprise shall be placed in the lower category unless it goes below the ceiling limits specified for its present category in both the criteria of investment as well as turnover.
(iii)) All units with Goods and Services Tax Identification Number (GSTIN) listed against the same Permanent Account Number (PAN) shall be collectively treated as one enterprise and the turnover and investment figures for all of such entities shall be seen together and only the aggregate values will be considered for deciding the category as micro, small or medium enterprise.

c. Calculation of investment in plant and machinery or equipment

(i) The calculation of investment in plant and machinery or equipment will be linked to the Income Tax Return (ITR) of the previous years filed under the Income Tax Act, 1961.
(ii) In case of a new enterprise, where no prior ITR is available, the investment will be based on self-declaration of the promoter of the enterprise and such relaxation shall end after the 31st March of the financial year in which it files its first ITR.
(iii) The expression ‘'plant and machinery or equipment'’ of the enterprise, shall have the same meaning as assigned to the plant and machinery in the Income Tax Rules, 1962 framed under the Income Tax Act, 1961 and shall include all tangible assets (other than land and building, furniture and fittings).
(iv) The purchase (invoice) value of a plant and machinery or equipment, whether purchased first hand or second hand, shall be taken into account excluding Goods and Services Tax (GST), on self-disclosure basis, if the enterprise is a new one without any ITR.
(v) The cost of certain items specified in the *Explanation I* to sub-section (1) of section 7 of the Act shall be excluded from the calculation of the amount of investment in plant and machinery.

d. Calculation of turnover

(i) Exports of goods or services or both, shall be excluded while calculating the turnover of any enterprise whether micro, small or medium, for the purposes of classification.
(ii) Information as regards turnover and exports turnover for an enterprise shall be linked to the Income Tax Act or the Central Goods and Services Act (CGST Act) and the GSTIN.
(iii) The turnover related figures of such enterprise which do not have PAN will be considered on self-declaration basis for a period up to 31st March, 2021 and thereafter, PAN and GSTIN shall be mandatory.

e. In case of an upward change in terms of investment in plant and machinery or equipment or turnover or both, and consequent re-classification, an enterprise will maintain its prevailing status till expiry of one year from the close of the year of registration. In case of reverse-graduation of an enterprise, whether as a result of re-classification or due to actual changes in investment in plant and machinery or equipment or turnover or both, and whether the enterprise is registered under the Act or not, the enterprise will continue in its present category till the closure of the financial year and it will be given the benefit of the changed status only with effect from 1st April of the financial year following the year in which such change took place. Other aspects relating to registration of enterprises, grievance redressal, etc. are mentioned in the Gazette Notification S.O. 2119 (E) dated June 26, 2020.

f. The above instructions supersedes RBI's earlier guidelines dated April 4, 2007, except paragraph 6 relating to delayed payment to micro and small enterprises.

(RBI/2020-21/10- FIDD.MSME & NFS . BC No. 3/06.02.31/2020-21 dated July 02, 2020)

8. Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances

In view of the continued need to support the viable MSME entities on account of the fallout of Covid19 and to align these guidelines with the Resolution Framework for COVID 19 – related Stress announced for other advances, it has been decided to extend the scheme permitted in terms of the aforesaid circular. Accordingly, existing loans to MSMEs classified as 'standard' may be restructured without a downgrade in the asset classification, subject to the following condition:

(i) The aggregate exposure, including non-fund based facilities, of banks andNBFCs to the borrower does not exceed ₹25 crore as on March 1, 2020.
(ii) The borrower's account was a 'standard asset' as on March 1, 2020.
(iii) The restructuring of the borrower account is implemented by March 31, 2021.

(iv) The borrowing entity is GST-registered on the date of implementation of therestructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration. This shall be determined on the basis of exemption limit obtaining as on March 1, 2020.

(v) Asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between March 2, 2020 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan. The asset classification benefit will be available only if the restructuring is done as per provisions of this circular.

(vi) As hitherto, for accounts restructured under these guidelines, banks shall maintain additional provision of 5% over and above the provision already held by them.

(RBI/2020-21/17 - DOR.No.BP.BC/4/21.04.048/2020-21 August 06, 2020

Shorter Version -

1.2 Policy Initiatives – Reserve Bank of India

The following major initiatives have been taken by RBI:

i. Instructions issued to all Commercial Banks, Regional Rural Banks and Small Finance Banks, Urban Cooperative Banks, State Cooperative Banks, DCCBs, NBFCs on COVID 19 Regulatory Package – Asset Classification and Provisioning vide circular dated 17 April 2020 and 23 May 2020.

ii. Instructions issued to all Public and Private Sector Scheduled Commercial Banks on Interest Subvention (IS) and Prompt Repayment Incentive (PRI) for Short Term Crop Loans during the years 2018-19 and 2019-20: Extended Period on account of Covid-19 vide circular dated 21 April 2020.

iii. Instructions issued to all Commercial Banks, Regional Rural Banks and Small Finance Banks, Urban Cooperative Banks, State Cooperative Banks, DCCBs, NBFCs on Resolution Framework for COVID-19-related Stress – Financial Parameters vide circular dated 07 September 2020.

iv. RBI extending Interest Subvention (IS) and Prompt Repayment Incentive (PRI) for Short Term Loans for Agriculture including Animal Husbandry, Dairy and Fisheries for extended period up to 31 August 2020 on account of Covid-19 vide circular dated 4 June 2020.

v. Master circular issued on Deendayal Antyodaya Yojana and National Rural Livelihoods Mission (DAY-NRLM) by incorporating the modifications in DAY-NRLM scheme issued up to September 18, 2020 vide circular dated 18 September 2020

vi. Government of India (GoI), vide Gazette Notification S.O. 2119 (E) dated June 26, 2020, has notified new criteria for classifying the enterprises as Micro, Small and Medium enterprises. The new criteria will come into effect from July 1, 2020, vide circular dated 02 July 2020.

vii. In view of the continued need to support the viable MSME entities on account of the fallout of Covid19 and to align these guidelines with the Resolution Framework for COVID 19 – related Stress announced for other advances, it has been decided to extend the scheme i.e., existing loans to MSMEs classified as 'standard' may be restructured without a downgrade in the asset classification vide circular dated 06 August 2020.

(For detailed paper visit https://www.nabard.org/plpguide.aspx?id=698&cid=698**)**