

All Primary (Urban) Co-operative Banks

Dear Sir,

**Annual Policy Statement for the year 2004-05 :
Prudential Norms for Agricultural Advances**

As per para 2.1.1(iv) of the Master Circular dated December 26, 2004 relating to income recognition, asset classification and provisioning, all direct agricultural advances as listed in the Annexure I to the circular would become NPA, when interest and / or instalment of principal remains unpaid after it has become due for two harvest seasons, not exceeding two half years.

2. In this connection, we invite your attention to paragraph No.84 of the annual policy Statement for the year 2004-05 dated May 18, 2004 (copy of the paragraph enclosed for ready reference). As mentioned therein, in the case of long duration crops, the current prescription of "not exceeding two half-years" is inadequate. In order to align the repayment dates with harvesting of crops, it has been decided that with effect from September 30, 2004 the following revised norms will be applicable to all direct agricultural advances as listed in the Annexure :

- a) A loan granted for short duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons.
- b) A loan granted for long duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season.

3. For the purpose of these guidelines, "long duration" crops would be crops with crop season longer than one year and crops, which are not "long duration" crops would be treated as "short duration" crops.

4. The crop season for each crop, which means the period up to harvesting of the crops raised, would be as determined by the State Level Bankers' Committee in each State.

5. Depending upon the duration of crops raised by an agriculturist, the above NPA norms would also be made applicable to agricultural term loans availed of by him. In respect of agricultural loans, other than those specified in the Annexure and term loans given to non-agriculturists, identification of NPAs would be done on the same basis as non-agricultural advances which, at present, is the 90 days delinquency norm. We, however, advise that the relaxation granted to small loans (including gold loans) up to 1 lakh would remain unchanged and that such loans would continue to be governed by 180 days impairment norms.

6. Banks are urged to ensure that while granting loans and advances, realistic repayment schedules may be fixed on the basis of cash flows / fluidity with the borrowers. This would go a long way to facilitate prompt repayment by the borrowers and thus improve the record of recovery in agricultural advances.

7. In case banks require any clarifications on the above guidelines, they may approach the Chief General Manager-in-Charge, Rural Planning & Credit Department at the following address :

Reserve Bank of India,
Central Office, 13th floor,
Shahid Bhagat Singh Road,
P. B. No 1004, Mumbai – 400 001
Fax Nos. : 22658276/ 22621011/ 22658273

Yours faithfully,

(N.S.Vishwanathan)
Chief General Manager
Encls : 3 sheets

Extract of Annual Policy Statement for the year 2004-05

“ NPA Norms for Agricultural Finance

84. As per the extant norms, advances granted for agricultural purposes are treated as NPA where interest and/or instalment of principal remain unpaid after it has become due for two harvest seasons but for a period not exceeding two half years. However, in the case of longer duration crops, the current prescription of not exceeding two half years is inadequate. In order to align the repayment dates with harvesting of crops, it is proposed that:

- A loan granted for short duration crops will be treated as an NPA if the instalment of the principal or interest thereon remains unpaid for two crop seasons beyond the due date.
- A loan granted for long duration crops will be treated as an NPA if the instalment of the principal or interest thereon remains unpaid for one crop season beyond the due date.
- All the above prescriptions of crop loans would also be applicable, *mutatis mutandis*, to agricultural term loans. “

**Relevant extract of the list of direct agricultural advances
from the Master Circular on lending to priority sector –
RPCD. PLAN. BC. 42A/ 04.09.01/ 2001-02 dated 11 November, 2002.**

1.1 Direct Finance to Farmers for Agricultural Purposes

1.1.1 Short-term loans for raising crops i.e. for crop loans. In addition, advances upto Rs.5 lakh to farmers against pledge/ hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months, where the farmers were given crop loans for raising the produce, provided the borrowers draw credit from one bank.

1.1.2 Medium and long-term loans (**Provided directly to farmers** for financing production and development needs).

(i) Purchase of agricultural implements and machinery

(a) Purchase of agricultural implements - Iron ploughs, harrows, hose, land-levellers, bundformers, hand tools, sprayers, dusters, hay-press, sugarcane crushers, thresher machines, etc.

(b) Purchase of farm machinery - Tractors, trailers, power tillers, tractor accessories viz., disc ploughs, etc.

(c) Purchase of trucks, mini-trucks, jeeps, pick-up vans, bullock carts and other transport equipment, etc. to assist the transport of agricultural inputs and farm products.

(d) Transport of agricultural inputs and farm products.

(e) Purchase of plough animals.

(ii) Development of irrigation potential through –

(a) Construction of shallow and deep tube wells, tanks, higher etc., and purchase of drilling units.

(b) Constructing, deepening clearing of surface wells, boring of wells, electrification of wells, purchase of oil engines and installation of electric motor and pumps.

(c) Purchase and installation of turbine pumps, construction of field channels (open as well as underground), etc.

(d) Construction of lift irrigation project.

(e) Installation of sprinkler irrigation system.

(f) Purchase of generator sets for energisation of pumpsets used for agricultural purposes.

(iii) Reclamation and Land Development Schemes

Bunding of farm lands, levelling of land, terracing, conversion of dry paddy lands into wet irrigable paddy lands, wasteland development, development of farm drainage, reclamation of soil lands and prevention of salinisation, reclamation of ravine lands, purchase of bulldozers, etc.

(iv) Construction of farm buildings and structures, etc.

Bullock sheds, implement sheds, tractor and truck sheds, farm stores, etc.

(v) Construction and running of storage facilities

Construction and running of warehouses, godowns, silos and loans granted to farmer for establishing cold storages used for storing own produce.

(vi) Production and processing of hybrid seeds for crops.

(vii) Payment of irrigation charges, etc.

Charges for hired water from wells and tube wells, canal water charges, maintenance and upkeep of oil engines and electric motors, payment of labour charges, electricity charges, marketing charges, service charges to Customs Service Units, payment of development cess, etc.

(viii) Other types of direct finance to farmers

(a) Short-term loans

To traditional/non-traditional plantations and horticulture.

(b) Medium and long term loans

1. Development loans to all plantations, horticulture, forestry and wasteland.

2. Financing of small and marginal farmers for purchase of land for agricultural purposes.
