

Annex

Model Operating Procedure (Government Debt Relief Schemes)

Coverage and Meaning

1. For the purpose of the Model Operating Procedure (MOP), Debt Relief Schemes (DRS) refer to Schemes notified by the State Governments that entail funding by the fiscal authorities to cover debt obligations of a targeted segment of borrowers that the regulated entities are required to sacrifice / waive.
2. Announcement / notification of any such DRS should include the specific stress or distress situation necessitating announcement of such support. Given the broader implications of such DRS for the credit culture, while broad based relief measures can be addressed through pure fiscal support in the form of Direct Benefit Transfer (DBT), DRS should be considered only as a measure of last resort when other measures to alleviate financial stress have failed.

Pre-Notification Consultation

3. Before announcing any DRS, Governments may engage with the State Level Bankers' Committee (SLBC)/ District level Consultative Committee (DCC) to evolve a coordinated action plan for conceptualisation, design, and implementation of the DRS. The schemes should, cover critical aspects of the scheme like identification of borrowers, impact assessment, implementation timelines, resolution of issues concerning settlement of dues by Government to the lending institutions, etc.
4. The design features should ensure that the DRS do not impact the financial stability aspects of the region / State or create moral hazards in the borrower segments. Conformance to relevant regulatory guidelines on loan settlement, reporting to credit information companies etc. should also be taken into account.

Funding of Scheme

5. Detailed budgetary provisions / funding may be provided upfront towards any proposed DRS to fully cover the required settlement amounts. Where regulated entities have dues from the Government, pertaining to earlier DRS schemes, new schemes should be announced only on a fully pre-funded basis.

Design of Scheme

6. The DRS should be targeted only at the impacted borrowers and should not contain any restrictive covenant against timely repayments. Further, it should specify the criteria for determining eligible borrowers on an objective basis, detailed timeline of critical / material events, including cut-off dates for filing/ submission, acknowledgement, approval and settlement of claims along with compensation clauses for delays in settling the funds, on part of the Government.
7. The DRS should cover the entire outstanding dues of the borrowers being covered, including principal and accumulated interest till the date of receipt of funds by the regulated entities from the Government.
8. The DRS should not require the creation of a receivable in the books of the regulated entity against the Government. The exposure of regulated entities to the borrower shall continue and shall be reduced to the extent of funds received from the Government.
9. The entire implementation of the Scheme and settlement of claims by the Governments to the regulated entities, should generally be completed within 45 to 60 days.
10. The DRS should not contain any provision contrary to any regulatory instruction issued by the Reserve Bank / National Bank for Agriculture and Rural Development (NABARD).
11. The design of the DRS should not contain any provision that casts any obligations on the regulated entities, directly or indirectly, to:
 - a. waive/ sacrifice a part or whole of its dues from the borrower;
 - b. extend fresh credit to borrowers whose debt has been waived;
 - c. make any commitments in anticipation of future budgetary support;
 - d. stop pursuing legal avenues available to them, for recovery of dues from the borrower, pending receipt of funds from the Government.

However, if the regulated entities agree to any of the above at the time of design of DRS or subsequently, as per their Board-approved policies, it shall be subject to the applicable prudential guidelines.