

July 12, 2004

All State Co-operative Banks and
Central Co-operative Banks

Dear Sir,

**Prudential Norms on Income Recognition Asset Classification and
Provisioning -Agricultural advances**

Please refer to our circular RPCD.CO.RF.BC.No.70/07.37.02/2001-02 dated March 27, 2002 on the above subject.

As per the extant norms, advances granted for direct agricultural purposes are treated as NPA, where interest and/or instalment of principal remain unpaid after they become due for two harvest seasons 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, banks are advised that with effect from September 30, 2004 the following revised norms will be applicable:

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

2. 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.

3. 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.

4. 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 as indicated in the Annex. In respect of agricultural loans, other than those specified in the Annex 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 180 days delinquency norm and which would be reduced to 90 days delinquency norm by the year ending March 31, 2006, as advised in our circular RPCD.No.RF.BC. 39/07.37.02/2002-03 dated December 30, 2002.

5. Banks are advised to ensure that while granting loans and advances, realistic repayment schedules may be fixed on the basis of cash flows/ fluidity with the borrowers and thus improve the record of recovery in agricultural advances.

6. All other instructions in our circular RPCD. BC. No. 155 /07.37.02/95-96 dated June 22, 1996 as amended from time to time remain unchanged.

7. The contents of this circular may be placed before the Board of Directors of your bank.

8. Please acknowledge receipt to our concerned regional office.

Yours faithfully,

(C.S.Murthy)
Chief General Manager In-Charge

Encl: As above

**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.