

## UPSC Civil Services Examination

### UPSC Notes [GS-III]

#### Topic: S4A Scheme- Aims, Significance & Limitations

Scheme for Sustainable Structuring of Stressed Assets also known as S4A Scheme was launched on 13th June 2016 by the Reserve Bank of India as an initiative to address and resolve the debt issues of the corporate sector along with strengthening the ability of the lender to deal with stressed assets. As per the S4A scheme, the debt of a company is bifurcated into two parts namely sustainable and unsustainable debt based on the cash flows of the company's project. The sustainable debt of a company should not be less than 50% of the existing debt and the unsustainable debt can be converted into optionally convertible debentures. S4A Scheme is an important topic for the [IAS Exam](#).

##### Aims of S4A Scheme

Debt recovery and restructuring of strategic debt are some of the main concerns of many corporate companies. The Scheme for Sustainable Structuring of Stressed Assets was launched by the RBI to address the large stressed assets of the corporate sector.

The main aims of the S4A scheme are discussed below:

- The scheme aims to provide financial restructuring of large debted projects by allowing the bank's lender in acquiring equity of the stressed project.
- To restore the credit flow to the critical sectors along with restoring the infrastructure.
- To restore the issues faced by the real assets by providing an avenue for reworking financial structure.

##### Significance of S4A Scheme

Some of the major benefits provided by the S4A scheme are mentioned below:

- The scheme helps the banks to speed up the asset recovery process and also to manage their NPAs. For the fiscal year 2015-16, the Non-Performing Assets (NPA) has touched Rs. 6 lakh crore.
- The S4A Scheme also provides another opportunity for the borrowers to rework its financial structure.
- The scheme saves the banks from undue scrutiny through the oversight of an external Overseeing Committee (OC) which also ensures transparency. The endorsement of the OC is very important for the approval of any loan under the S4A scheme.

## S4A Scheme- Key Features

Following are some of the main features of the S4A scheme:

1. Under the S4A scheme, an account is considered eligible for restructuring if the total loans in the account by all the institutional lenders exceeds Rs. 500 crore which includes the rupee loans as well as the foreign currency loans.
2. An independent agency is hired by the lending bank for evaluating sustainable debt.
3. The projects that are under the S4A Scheme should have started their commercial operations and also allow the banks to take part in the stressed project.
4. The scheme also protects bankers from undue scrutiny by allowing the banks to rework on stressed loans.
5. One of the main features of this scheme is the test of sustainability as it allows the evaluation of the level of sustainable debt for a stressed borrower. Under the S4A scheme, the loans are divided into sustainable and unsustainable components.

## Limitations of S4A Scheme

The limitations of the S4A scheme are mentioned below:

- One of the major limitations of the S4A scheme is that it is only applicable for the operational projects and not for the projects that are under construction.
- The entities belonging to the vulnerable sectors have a low level of cash flows and as such, are not able to service a sustainable part of the debt with their current cash flows.
- This scheme also does not allow any rescheduling of the original tenure for repayment of debt.

S4A scheme is an important scheme launched by the Reserve Bank of India and forms an important part of the [UPSC Syllabus](#). Candidates preparing for [UPSC 2020](#) should also keep a track on the latest current affairs topics to know about other schemes and policies.