



**NATIONAL BANK FOR AGRICULTURE
AND RURAL DEVELOPMENT**

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NABARD

Production Credit Department

Ref.NB.PCD(Policy)/2380 /A-1(Gen)(RP)/2007-08

Circular No.NB./ 44 /PCD - 01 /2008

28 March 2008

The Managing Director
All State Co-operative Banks

Dear Sir,

**Provision of Short Term refinance by NABARD to State Cooperative Banks
for financing Seasonal Agricultural Operations (SAO) - Policy for the year 2008-09**

Please refer to our circular letter No.NB.PCD(Policy)/H-12/A-1(Gen)(RP)/2007-08 dated 10 April 2007 communicating NABARD's policy for the year 2007-08 in regard to provision of refinance under Section 21(1) of NABARD Act, 1981 to State Cooperative Banks (SCBs) in respect of eligible District Central Cooperative Banks (DCCBs) for financing Seasonal Agricultural Operations. We have since finalised the ST(SAO) Policy for the year 2008-09 taking into account the performance of the Cooperative Banks during 2007-08 and the thrust given by Govt. of India for enhancing ground level agricultural credit during 2008-09.

2. Most of the eligible Cooperative Banks in short term cooperative credit structure have implemented the GoI Scheme of ensuring dispensation of crop loan to farmers (upto Rs. 3.00 lakh) at 7% rate of interest p.a. during 2007-08 with concessional refinance from NABARD and interest subvention from Govt.of India on the own involvement. As you are aware, the Hon'ble Union Finance Minister in his Budget Speech has announced that the interest subvention scheme will continue during the year 2008-09 as well. In this connection, we invite your attention to our letters No NB.PCD(OPR)/376/A.1(Gen)(RP)/2006-07 dated 01 June 2006 and NB.PCD(Policy)/H-105/IS-Coop 07-08/2007-08 dated 08 June 2007 read with NB.PCD(Policy)/1939/A.1(Gen)(RP)/2006-07 dated 05 December 2006. Accordingly, the instructions contained therein regarding the margin available to the system, interest subvention on own involvement of Cooperative Banks and the rate of interest to be charged to ultimate borrowers would be applicable during 2008-09.

3. The detailed guidelines governing provision of ST(SAO) refinance by NABARD during 2008-09 are furnished in Annexure.

4. Highlights of the policy are indicated below:

I. Continuance of certain sanction and operational norms

i) Sanction norms stipulated for the year 2007-08 viz. completion of audit, RCS recommendation, sanction of consolidated limit to SCB in respect of eligible DCCBs, segregation of limit to OC, OPP, NPDP and DTP limits, sanction of limits to Section 11(1) non-compliant SCBs / Non-Scheduled SCBs against State Govt. Guarantee etc. would continue for the year 2008-09.

ii) Certain operational norms stipulated for the year 2007-08 viz. release of refinance within NODC of eligible DCCBs, extending 30% crop loans to small and marginal farmers, disallowing operations to DCCBs in case of continuous default to SCB, additional interest in case of NODC deficit would continue for the year 2008-09.

II. Changes in policy for 2008-09

i) The Section 11(1) non complaint SCB/DCCBs, operating in the State where Prof. Vaidyanathan Committee recommendations have been accepted and MoU executed can be sanctioned refinance if the SCB/DCCB has submitted fresh exemption application together with suitable action plan acceptable to NABARD (Department of Supervision, Head Office). In such cases it will not be insisted that to be eligible for refinance the exemption application of the concerned Section 11 (1) non-compliant SCB/DCCB should not be pending for more than a year/ NABARD should not have recommended for rejection of licence. The banks whose licence application have already been rejected will not be eligible for credit limit from NABARD.

ii) The quantum of refinance would be linked to Net NPA / Gross NPA level of the SCB. Further, with a view to increase the credit flow in the North Eastern Region, Jammu & Kashmir,

Sikkim and Andaman and Nicobar Islands, it has been decided to provide enhanced refinance to Cooperative Banks in these regions with relaxation in Gross NPAs/ Net NPAs norms.

iii) As majority of the States have executed MoU for implementation of Prof. Vaidyanathan Committee recommendations, which would take care of reform measures as stipulated in MoU, it has been decided to dispense with bifurcation of ST(SAO) credit limit into Core and Flexible Component.

iv) In case of default in repayment of principal and payment of interest by the SCB, the bank will be liable to pay to NABARD interest on amount of default at 10.5% p.a. for the period for which the default persists. The penal interest rates are subject to revision from time to time.

5. It is expected that with concessional refinance from NABARD and interest subvention of 2% on bank's own involvement from GoI, banks would be in a position to provide crop loan to farmers during 2008-09 (upto Rs. 3.00 lakh) at 7% p.a. NABARD refinance would be provided at 3.5% p.a. (subject to revision, in future, in consultation with Govt. of India) to such banks, which, together with their own involvement, provide crop loan to farmers at 7% per annum.

6. As NABARD allows drawal to SCBs only against non overdue loans, it is desirable that SCBs should also stipulate NODC norms for allowing drawals to DCCBs in order to ensure better recovery climate.

7. The NPA norms for deciding the eligibility and quantum of refinance will be tightened and made more stringent in future. Further, Capital to Risk Weighted Assets Ratio (CRAR) norm may be used as one of the tools to regulate flow of ST(SAO) refinance in future.

Please acknowledge receipt.

Yours faithfully

(K. Sarangi)
General Manager

Annexure

Provision of Short Term refinance by NABARD to State Cooperative Banks for financing Seasonal Agricultural Operations-Policy for the year 2008-09

I Operative Period of ST(SAO) limit

The operative period of ST(SAO) limit for the year 2008-09 would be from 01 April 2008 to 31 March 2009. ST-SAO refinance would be provided to SCBs in respect of crop loans disbursed **only** during the operative period.

II Sanction of consolidated limit

- i. A consolidated limit under ST(SAO) will be sanctioned to SCBs on behalf of eligible DCCBs.
- ii. The limit will be sanctioned to SCBs under section 21(1)(i) read with section 21(4) of the NABARD Act, 1981 against the DPN executed by the SCB and declaration in writing at the time of each drawal that the drawal preferred and the refinance already availed are against the loans provided to eligible DCCBs for financing SAO and are covered by adequate non-overdue loans outstanding at DCCB level against PACS. TPNs executed by DCCBs in favour of SCB will continue to be endorsed in favour of NABARD and SCB will keep the endorsed TPNs with them as agent of NABARD.

III. Eligibility Norms for SCB / DCCBs

i. Audit

Audit of SCB / DCCBs for the year 2006-07 should have been completed and relative audit reports alongwith financial statements should have been received by NABARD, Regional Office. Wherever audit for 2007-08 is completed and report available, the same may be submitted together with financial statements.

ii. Compliance with Section 11(1) of B.R. Act, 1949 (AACS)

- a. All SCBs /DCCBs, complying with the provisions of Section 11(1) of B.R. Act 1949 (AACS) or exempted from complying with the said provisions by Govt. of India, will be eligible.
- b. SCB / DCCBs not complying with Section 11(1) of the Act, ibid will be eligible for sanction of credit limit. However, SCB / DCCBs whose licence applications have been recommended by

NABARD to RBI for rejection or already rejected by RBI, would not be eligible for sanction of refinance. Moreover, banks whose applications seeking exemption from Section 11 (1) of the B.R. Act, 1949 (AACS), duly approved and recommended by NABARD, is pending with RBI/GoI for more than a year, would not be eligible for ST-SAO credit limit.

c. However, in respect of States which have accepted and executed the MoU as per Vaidyanathan Committee recommendations, Section 11(1) non compliant SCBs/DCCBs will be eligible for refinance even though (i) their exemption applications, duly approved and recommended by NABARD, are pending for more than a year with RBI/Govt. of India ; (ii) NABARD had recommended for rejection of licence, provided SCBs/ DCCBs have submitted fresh applications together with suitable action plan seeking exemption from the provisions of Section 11(1) of B.R. Act, 1949 (AACS), acceptable to NABARD Head Office (DOS). However, the banks whose licence application have already been rejected, will not be eligible for credit limit from NABARD.

d. In case of ineligible DCCBs, the PACS affiliated to such DCCBs may be financed by SCB or nearby DCCB, subject to their bye-laws and approval of RCS. Such financing by SCB / DCCB to such PACS would be eligible for NABARD refinance.

e. Sanction of credit limits to SCB, whose deposits have been eroded as per the latest statutory inspection would be against State Government guarantee or pledge of securities in lieu of Govt. guarantee. Credit limit applications of such SCBs may be forwarded to Head Office.

IV. Quantum of Refinance

(i) (a) SCBs earning profits during 2006-07 or 2007-08 (based on latest financial position available at the time of sanction of limit) with no accumulated losses:

Level of Net NPAs of SCB	Eligible limit [As percentage of Realistic Lending Programme (RLP)]
Upto 10%	35% of RLP
Above 10% and upto 15%	30% of RLP
Above 15%	25% of RLP

However, with a view to increasing the credit flow in the North Eastern Region, J & K, Sikkim and Andaman and Nicobar Islands, for SCBs earning profits during 2006-07 or 2007-08 (based on latest financial position available at the time of sanction of limit) with no accumulated losses, eligible limit will be as under :

Level of Net NPAs of SCB	Eligible limit [As percentage of Realistic Lending Programme (RLP)]
Upto 15%	50% of RLP
Above 15% and upto 20%	40% of RLP
Above 20%	30% of RLP

(b) SCBs incurring losses during 2006-07 or 2007-08 (based on latest financial position available at the time of sanction of limit) and /or with accumulated losses:

Level of Gross NPAs of SCB	Eligible limit [As percentage of Realistic Lending Programme (RLP)]
Upto 15%	35% of RLP
Above 15% and upto 25%	30% of RLP
Above 25%	25% of RLP

However, with a view to increasing the credit flow in the North Eastern Region, J & K, Sikkim and Andaman and Nicobar Islands, for SCBs incurring losses during 2006-07 or 2007-08 (based on latest financial position available at the time of sanction of limit) and / or with accumulated losses, eligible limit will be as under:

Level of Gross NPAs of SCB	Eligible limit [As percentage of Realistic Lending Programme (RLP)]
Upto 20%	50% of RLP
Above 20% and upto 30%	40% of RLP
Above 30%	30% of RLP

(ii) For the year 2008-09 also, RLP has been defined as crop loans expected to be issued during the year (not the outstanding which includes overdues). **The RLP for 2008-09 may be arrived at on the basis of average growth in crop loans issued during previous three years (taking into account the crop loans issued data for last four years). However, keeping in view the ground realities, RO-in-Charge may accept RLP which may be lower or higher than the RLP worked out as mentioned above.** The reason for accepting such higher/lower RLP may be given in the scrutiny note.

(iii) If the NPA level of the bank as per statutory audit is less as compared to NPA revealed in statutory inspection report, the NPA level as revealed in inspection report would determine the bank's eligibility. If the NPA position as on 31 March 2008 is available at the time of sanction of credit limit, the same would be considered for determining the quantum of credit limit.

V. Linking reform measures to release of refinance

As majority of the States have executed MoU for implementation of Prof. Vaidyanathan Committee recommendations, which would take care of reform measures as stipulated in MoU, **it has been decided to dispense with bifurcation of ST(SAO) credit limit into Core and Flexible Component.**

VI. Recommendation of RCS

The consolidated credit limit application has to be recommended by RCS.

VII. Limits to Non-Scheduled SCBs

Credit limits to non-scheduled SCBs would be sanctioned only against Government guarantee/pledge of Govt. securities.

VIII. Sanction of sub limits

The consolidated limit to be sanctioned to SCB would be segregated into sub limits for SAO-OC, SAO-OPP, SAO-NPDP and SAO-DTP on the basis of DCCB wise Realistic Lending Programme for respective purposes. The maximum outstanding reached during the previous year under each sub-head may also be taken into consideration while segregating the consolidated limit to sub-limits.

IX. Rate of Interest

The rate of interest on refinance would be 3.5% per annum during the year 2008-09, subject to revision, in future, in consultation with Govt. of India. This would be applicable to refinance drawn from 01 April 2008 onwards against the crop loans disbursed from 01 April 2008 onwards. The outstanding against the limits sanctioned during 2007-08 will carry old rates. Therefore, the outstanding relating to the year 2007-08 would be freezed as on 01 April 2008 under A/c no. III which will carry the old rate of interest as applicable for the year 2007-08. A new account will be opened for allowing drawals to SCB during 2008-09 (Financial Year) which will carry rate of interest @ 3.5% per annum or as revised from time to time. The repayments received would be first adjusted against A/c No. pertaining to 2006-07 and 2007-08 respectively till the balances in these accounts become nil.

The concessional refinance will be available only to those State Cooperative Banks which, together with their own involvement, agree to ensure the provision of crop loans upto Rs.3.00 lakh per borrower at 7% p.a.

X. Operational Discipline

(i) Compliance with Section 11(1) of the B.R. Act, 1949 (AACs)

(a) In case of banks not complying with Section 11(1) of the Act, ibid after sanction of credit limit, further drawals may be allowed only against State Govt. guarantee or pledge of Govt. securities.

(b) Drawals would be permitted to banks only upto the period of exemption granted by GoI. Drawals beyond the exemption period, but during the remaining part of the operative period of the credit limit, may be permitted only after the bank's application seeking exemption from the provisions of the Act, ibid duly recommended by State Government, is received by NABARD.

(ii) NODC

Drawals on sanctioned limit would be permitted by NABARD to SCBs on the basis of aggregate NODC (overall NODC available under all sub limits and not sub limit wise) pertaining to the eligible DCCBs which have outstanding borrowings from the SCB as hitherto. The banks will however be required to monitor NODC sub limit wise but in case of short fall in NODC in any sub limit no penal interest may be charged if overall NODC is available. However banks should

strive to avail maximum refinance against each sub limit sanctioned. The SCB will have to submit monthly NODC statements indicating DCCB-wise position.

(iii) Small Farmer (SF) /Marginal Farmer (MF) Tenant Farmer (TF) and oral lessees

Banks are expected to ensure that aggregate crop loan disbursement by all eligible DCCBs to SF/MF shall not be less than 30% of the total aggregate crop loan disbursements by the eligible DCCBs. 60% of the total limit will constitute the free portion. Over and above free portion, drawals will be permitted on pro rata basis to the extent of SF/MF coverage actually achieved.

Banks should increase their lending to Tenant Farmers and Oral Lessees through Joint Liability Group Scheme or otherwise and claim refinance in respect of disbursement made for crop loans.

(iv) Defaults by DCCBs

In case a DCCB is in default to the SCB under ST(SAO) continuously for a period exceeding 3 months, the SCB concerned will not be allowed to operate on the limit in respect of the DCCB concerned till the default is regularized.

(v) Additional interest on NODC deficit

In case of deficit in NODC, SCB will have to make good the deficit in NODC. In case the SCB fails to make good the deficit within one month from the date of occurrence of such deficit, additional interest @ 1% p.a. will be charged on the deficit in NODC for the duration of deficit till the date on which the amount of deficit is regularized.

(vi) Deficit in CRR / SLR

DCCBs having deficit in CRR / SLR continuously for 3 months during 2008-09, may be released refinance subject to submission of an action plan by concerned bank to the satisfaction of NABARD to avoid such defaults in future.

(vii) Clearance of defaults

SCBs which fail to honour their commitments to NABARD in repayment of principal, payment of interest and / or any other dues by the prescribed due dates, will not be eligible for any refinance facility from NABARD till the clearance of default in question.

In the event of default in repayment of principal and /or payment of interest, the SCB will be liable to pay to NABARD interest on amount of default at 10.5% p.a. for the period for which the default persists. The penal interest rates are subject to revision from time to time.

viii. NABARD reserves the right to inspect / get inspected the books of accounts of the bank as part of the lending agreement.

ix. NABARD would have the right to cause special audit of the books of accounts and other relevant material of the Cooperative Banks either by itself or through other agencies to ensure that the same are maintained as per the rules and regulations in force and the terms and conditions of refinance are adhered to by the bank..
