



NATIONAL BANK FOR AGRICULTURE
AND RURAL DEVELOPMENT

NABARD Production Credit Department

Plot No. C-24,
Block - G
Post Bag No. 8121
Bandra-Kurla Complex
Mumbai - 400 051.
2652 4836, 2653 0085
e-mail : pcd@nabard.org

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The Managing Director
All State Cooperative Banks

Dear Sir,

Provision of Short Term refinance by NABARD to State Cooperative Banks for financing Seasonal Agricultural Operations (SAO) - Policy for the year 2009-10

Please refer to our letter No.NB.PCD(Policy)/2380/A-1(Gen)(RP)/2007-08 dated 28 March 2008 communicating NABARD's policy for the year 2008-09 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 2009-10 considering the performance of the Cooperative Banks during 2008-09 and the thrust given by Govt. of India for enhancing ground level agricultural credit during 2009-10.

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 2008-09 with concessional refinance from NABARD and interest subvention from Govt. of India on their own involvement. As you are aware, the Hon'ble Union Finance Minister in his interim Budget Speech, has announced that Govt. of India will continue to provide interest subvention during 2009-10 to ensure that farmers get loans upto Rs. 3 lakh at 7% p.a..

3. The detailed guidelines governing provision of ST(SAO) refinance by NABARD during 2009-10 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 2008-09 viz. completion of audit, 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 2009-10.

ii) Certain operational norms stipulated for the year 2008-09 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 2009-10.

iii) The norms stipulated for the year 2008-09 for sanction of credit limit to Section 11(1) non complaint SCB/ DCCBs operating in the States where Prof. Vaidyanathan Committee recommendations have been accepted and MoU executed or otherwise, would continue during 2009-10.

II. Changes in policy for 2009-10

i) The quantum of refinance would be linked to **Net NPA level** of the SCB as detailed in the Annexure. In order to increase the credit flow in the North Eastern Region, Jammu & Kashmir, Sikkim, Himachal Pradesh, Uttarakhand, Lakshadweep and Andaman & Nicobar Islands, it has been decided to provide enhanced refinance to Cooperative Banks in these regions with relaxation in Net NPAs norms. Further, SCBs in eastern region viz., Bihar, Chattisgarh, Orissa and West Bengal States would be eligible for additional refinance of 5% over and above the applicable quantum of refinance.

ii) 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% p.a. for the period for which the default persists. The penal interest rates are subject to revision from time to time. Further, it may be noted that the penal interest rate issued under investment credit from time to time would be applicable for ST(SAO), as well.

iii) Operational norms - In States where MOU have been executed in terms of VC-I recommendations and Cooperative Societies Act have been amended, credit limit application **need not be routed** through RCS. However, in case of other States, the consolidated credit limit application should be recommended by RCS, as hitherto.

5. It is expected that with concessional refinance from NABARD and interest subvention on bank's own involvement from GoI, banks would be in a position to provide crop loan to farmers during 2009-10 (upto Rs. 3.00 lakh) at 7% p.a. NABARD refinance would be provided at 4% p.a. (in terms with Govt. of India instructions) 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 crop loans , it is desirable that SCBs should also stipulate NODC norms for allowing drawals to DCCBs in order to ensure better recovery climate.

7. NABARD would take a serious view in case of availment of drawals beyond permissible quantum of refinance on account of reporting of incorrect data on crop loan disbursement, by way of calling back the excess refinance and/ or stopping further refinance.

8. The majority of the States have executed MoU for implementation of Prof. Vaidyanathan Committee recommendations. It is, therefore, expected that the banks move ahead with a professional approach in their business. Accordingly, where-ever CSAs have been amended, it is expected that the audit of Cooperatives will be carried out by CAs approved by NABARD and there is presence of elected Boards in the STCCs. Further, norms for professional directors (elected/ co-opted) and appointment of CEO as per fit and proper criterion may be followed by the STCCs.

9. NABARD may incentivise the banks having catered to the demand of farmers who have become eligible for fresh loans after implementation of ADWDR scheme, 2008.

10. Further our ST (SAO) policy in future may be guided by following factors:

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

ii). Sanction of credit limit for ensuing year may be linked to the utilisation level of previous year where-ever utilisation of the credit limit sanctioned to the SCB is less than 90%. Further, SCBs, which are able to achieve atleast 90% of the refinance target for the year 2009-10, would be eligible for additional refinance at 5%, over and above the applicable quantum of refinance during 2010-11.

11. You may submit the consolidated credit limit application on behalf of all the eligible DCCBs in the prescribed proforma, latest by 31 May 2009 to NABARD RO, in your State.

12. Please acknowledge receipt.

Yours faithfully

(S G Rathod)
Chief General Manager

Annexure

Provision of Short Term refinance by NABARD to State Cooperative Banks for financing Seasonal Agricultural Operations-Policy for the year 2009-10

I Operative Period of ST(SAO) limit

The operative period of ST(SAO) limit **for the year 2009-10 would be 01 April 2009 to 31 March 2010**. ST(SAO) refinance would be provided to SCB 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 SCB on behalf of eligible DCCBs.

(ii) The limit will be sanctioned to SCB under Section 21(1) (i) read with Section 21(4) of the NABARD Act 1981 against DPN executed by 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 crop 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 2007-08** should have been completed and the relative audit reports alongwith financial statements should have been received by NABARD Regional Office. Wherever **statutory audit for 2008-09 is completed** and report available, the same may be submitted together with financial statements.

(ii). Compliance with Section 11(1) of BR Act of 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 provision by Govt. of India, will be eligible.

b. SCBs/ DCCBs not complying with Section 11(1) of the Act *ibid* and not exempted from complying with said provisions will be eligible for sanction of credit limit provided their exemption applications, duly approved and recommended by NABARD, are not pending with RBI/ Govt. of India for more than a year.

c. 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.

d. Special relaxation would be granted in respect of States which have accepted and executed the MoU as per Vaidyanathan Committee recommendations. Accordingly, Section 11(1) non-compliant SCBs/ DCCBs will be eligible for refinance even though their exemption applications, duly approved and recommended by NABARD are pending for more than a year with RBI/ Govt. of India or NABARD had recommended for rejection of licence, provided such SCBs/ DCCBs have submitted fresh applications together with the suitable action plans seeking exemptions from the provisions of Section 11(1) of the BR Act, 1949 (AACS), acceptable to NABARD Head Office (DOS).

(iii). In case of ineligible DCCBs, the PACS affiliated to such DCCBs may be financed by SCB or nearby DCCB, subject to their bye law. The financing by SCB/ DCCB to such PACS would be eligible for NABARD refinance.

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

IV. Quantum of Refinance

(i) **The quantum of refinance would be as under :**

Level of Net NPAs of SCB	Eligible limit [As per percentage of realistic lending Programme of eligible DCCBs (RLP)]
Upto 10%	40% of RLP
Above 10% and upto 15%	35% of RLP
Above 15%	30% of RLP

However, with a view to increase the credit flow in the North Eastern Region, Jammu & Kashmir, Sikkim, Himachal Pradesh, Uttarakhand, Lakshadweep and Andaman & Nicobar Islands, the eligibility in these States will be as under:

Level of Net NPAs of SCB	Eligible limit [As per percentage of Realistic Lending Programme of eligible DCCBs (RLP)]
Upto 15%	50% of RLP
Above 15% upto 20%	45% of RLP
Above 20%	40% of RLP

Further, SCBs in eastern region viz., Bihar, Chattisgarh, Orissa and West Bengal States would be eligible for additional refinance of 5% over and above the applicable quantum of refinance as under:

Level of Net NPAs of SCB	Eligible limit [As per percentage of realistic lending Programme of eligible DCCBs (RLP)]
Upto 10%	45% of RLP
Above 10% and upto 15%	40% of RLP
Above 15%	35% of RLP

(ii) For the year 2009-10 as well , RLP has been defined as crop loans expected to be issued during the year. The RLP for 2009-10 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, NABARD RO may accept RLP which may be lower or higher than the RLP worked out as mentioned above.

(iii) The net NPA position as on 31 March 2008 would be considered for sanction of credit limit. However, if the net NPA position as on 31 March 2009 is available at the time of sanction of credit limit, the same would be considered for determining the quantum of credit limit in view of grants receipts under ADWDR Scheme, 2008 and recapitalisation assistance under VC-I package. If the net NPA level of the bank as per statutory audit (31 March 2008 or 31 March 2009), is less as compared to net NPA revealed in statutory inspection report (31 March 2008 or 31 March 2009), the net NPA level as revealed in Inspection Report would determine the bank's eligibility.

V. Linking reform measures

The majority of the States have executed MoU for implementation of Prof. Vaidyanathan Committee recommendations. It is, therefore, desirable that the banks move ahead with a professional approach in their business. Accordingly, it is expected that where-ever CSAs have been amended the audit of Cooperatives are done by CAs approved by NABARD and there is presence of elected Boards in the STCCs. Further, norms of professional directors (elected/ co-opted) and appointment of CEO as per fit and proper criterion may be followed by all these institutions.

VI. Recommendation of RCS

(i) In States where MOU have been executed and Cooperative Societies Act have been amended, credit limit application **need not be routed** through RCS.

(ii) In case of other States, the consolidated credit limit application should be recommended by RCS, as hitherto.

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

Separate sub-limits under ST(SAO) credit limits for financing (a) cultivation of other crops, (b) cultivation of oilseeds under OPP in districts where the programme is under implementation, (c) cultivation of pulses under NPDP in the identified districts and (d) production credit requirements of tribals under DTP would be sanctioned by NABARD as hitherto. Accordingly, 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.

IX. Rate of Interest

(i) The rate of interest on refinance **would be 4% per annum during the year 2009-10**, in terms of Govt. of India instructions. This would be applicable to refinance drawn from 01 April 2009 onwards against the crop loans disbursed from 01 April 2009 onwards. The outstanding against the limits sanctioned during 2008-09 will carry old rates. Therefore, the outstanding relating to the year 2008-09 would be freezed as at c.o.b. on 31 March 2009 under A/c no. IV which will carry the rate of interest as

applicable for the year 2008-09. A new account will be opened for allowing drawals to SCB during 2009-10 (Financial Year) which will carry rate of interest @ **4% per annum** or as revised from time to time. The repayments received would be first adjusted against A/c No. III and then A/c No. IV (pertaining to 2007-08 and 2008-09 respectively) till the balances outstanding in these accounts become nil.

(ii) 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 the sanction of credit limit, further drawals may be allowed only against government 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 (where ever applicable), is received by NABARD.

(ii) NODC

Drawals on the sanctioned limit would be permitted by NABARD to SCB 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 SCB as hitherto. The banks will, however, be required to monitor NODC sub-limit wise but in case of shortfall in NODC in any sub-limit no additional interest may be charged if overall NODC is available. The SCB will have to submit monthly NODC statement indicating DCCB wise position by 20th of the succeeding month.

(iii) Coverage of Small Farmer (SF)/ Marginal Farmer (MF),
Tenant Farmer (TF) and Oral Lessees (OL)

Banks have 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.

Bank should increase their lending to tenant farmers and oral lessees through Joint Liability Group Scheme or otherwise.

(iv) Defaults by DCCBs to SCB

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) Clearance of Default

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% p.a. for the period for which the default persists. The penal interest rates are subject to revision from time to time. Further, it may be noted that the penal interest rate issued under investment credit from time to time would be applicable for ST(SAO), as well.

(vii) Right to inspection

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

(viii) Right to cause special audit

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.

(ix) Excess drawal

NABARD would take a serious view in case of availment of drawals beyond permissible quantum of refinance on account of reporting of incorrect data on crop loan disbursement by way of calling back the excess refinance and/ or stopping further refinance.
