



NABARD

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NABARD'S STRATEGIC PARTICIPATION IN THE EQUITY OF COMMODITY EXCHANGES

One of the critical issues faced by Indian agriculture is the price distortion due to long supply chain in farm produce marketing and resultant low share of farmers in the final price. The need for efficient price discovery and better price realization for farmers have been raised several fora and have been engaging the attention of policy makers. The production, supply and distribution of many agricultural commodities are still governed by the State. Free trade in many agricultural commodities is restricted under the Essential Commodities Act (ECA), 1955 and Agriculture Produce Marketing Committees (APMC) Acts of various State Governments. They create imperfections in agricultural markets and work against the interest of farmers.

Post reforms trends show that agriculture is becoming increasingly commercialized and is gearing to produce for specific markets. Agricultural marketing is witnessing major changes world over, owing to liberalization of trade in agricultural commodities. To benefit farming community for the new global market access opportunities, the internal agricultural marketing system in the country needs to be integrated and strengthened. It requires a healthy environment, smooth channels for the transfer of produce, physical infrastructure to support marketing activities, instruments for risk mitigation, etc.

Agricultural commodity futures are market-based instruments for managing risks and they help in orderly establishment of efficient agricultural markets. Futures markets are used to hedge commodity price risks. They also serve as a low cost, highly efficient and transparent mechanism for discovering prices in the future by providing a forum for exchanging information about supply and demand conditions. The hedging and

price discovery functions through future markets promote more efficient production, storage, marketing and agro-processing operations and help in improvement in overall agricultural marketing performance.

Although India has a long history of trade in commodity derivatives, this sector remained underdeveloped due to Government intervention in many commodity markets to control prices. The forward and futures contracts were, till April 2003, limited to only a few commodities under the Forward Contracts (Regulation) Act (FCRA), 1952. However, GOI removed all restrictions on trading in commodities during 2003. As a result, now all commodities can be traded on commodity exchanges. At present, 25 commodity exchanges are in operation in India carrying out futures trading in as many as 81 commodities, out of which 21 Exchanges are regional and commodity specific in nature.

The Forward Markets Commission (FMC), established under the Forward Contracts (Regulation) Act, 1952 is the agency that regulates commodity derivatives trading in India as SEBI does for securities markets. During 2003, FMC accorded National status to four commodity exchanges, viz., National Multi Commodity Exchange (NMCE),

Ahmedabad, National Board of Trade (NBOT), Indore, National Commodity Derivative Exchange (NCDEX), Mumbai and Multi Commodity Exchange (MCX), Mumbai.

With a view to enhancing the efficiency of agricultural commodities markets and improving the price discovery mechanisms, NABARD considered having stakes in national level commodity exchanges. The FMC was also of the view that a national level institution like NABARD could play a promotional and developmental role in setting up broad based modern, transparent and vibrant commodity exchanges. Participation of NABARD in the equity of commodity exchanges will facilitate integration of agriculture credit, securitisation of agricultural produce and futures markets, leading to more efficient price discovery of farm produce. In line with this thinking and the priority accorded by Govt. of India, NABARD in consultation with RBI decided to make a foray into equity participation in leading national level commodity Exchanges. Accordingly, NABARD has invested in the equity of two national level commodity exchanges – National Commodity Derivative Exchange (NCDEX), and Multi Commodity Exchange (MCX).

MULTI COMMODITY EXCHANGE

NABARD has contributed Rs. 1.25 crore towards the equity of Multi Commodity Exchange. NABARD has taken a conscious decision to enter into partnership with leading national level commodity exchanges. Contribution to the equity and participation in management of MCX is a step in this direction. The participation in MCX will enable the two national level institutions, NABARD & MCX to work synergistically to achieve the objective of establishing an efficient and transparent agricultural market in India, in the larger interest of farming community for better price realization of their farm produce. The Bank had earlier invested in the equity of NCDEX.

NABARD is one of the promoters of NCDEX along with ICICI Bank, LIC and NSE. Subsequently, IFFCO, Canara Bank and PNB have also invested in the equity of this exchange. NABARD has contributed approx. 15% to the share capital of NCDEX and is represented on the Board and the Executive Committee of the exchange. A total of 32 agricultural commodities are traded in NCDEX. The Financial Technologies India Ltd. has promoted the MCX. NABARD has contributed approx. 5% to the equity of MCX and has representation on the Board of Directors of the Exchange. SBI along with its subsidiaries, Canara Bank, Bank of India, Union Bank of India, Bank of Baroda, Corporation Bank and HDFC Bank are other shareholders of MCX. A total of 26 agricultural commodities are traded in MCX.

NABARD also associated as a member in the working Group of RBI on Warehouse Receipts and Commodity Futures, constituted in accordance with the announcement made by the Governor, RBI, in the Mid-term Review of the Annual Policy Statement for the year 2004-05. The Working Group has submitted its report. The Group has recommended that banks may be permitted to offer futures based products to farmers in order to enable them to hedge their price risk. The group has also recommended that the Forward Contracts (Regulation) Act, 1952 should be amended and Forward Markets Commission (FMC) should evolve a framework for introducing Options trading in agricultural commodities in India.

Another important development relates to introduction of Warehouse Receipts financing System in India. A Core Group has been constituted by the Ministry of Consumer Affairs, Food and Public Distribution for drafting the Negotiable Warehouse Receipts Act which is in an advanced stage of finalisation.

With these developments, the agricultural commodities markets are poised for a major transformation in the interest of farmers. NABARD's strategic partnership with NCDEX and MCX will enable these two national level commodity exchanges & NABARD to work synergistically to achieve the objective of establishing an efficient and transparent agricultural market in India, in the larger interest of farming community for better price realization of their farm produce.

BIG LEAP IN MICRO CREDIT INITIATIVES

The Self Help Group - Bank Linkage Programme has come a long way. During 2004-05, as many as 5.39 lakh SHGs have been credit linked with the banks as against 3.6 lakh during 2003-04. Cumulatively, the number of SHGs linked with the banks as on 31 March 2005 were 16.19 lakh as against 10.79 lakh as on 31 March 2004.

There was a record disbursement of credit to Self Help Group members in 2004-05 at Rs.2,994.25 crore as against Rs.1,855.50 crore in the previous year, registering an increase of 61%. Cumulatively, the credit disbursed by financial institutions to the microFinance Sector as on 31 March 2005 was of the order of Rs.6,898.46 crore as against Rs.3,904 crore as on 31 March 2004.

Region-wise, a reversal in the trend of higher concentration traditionally in the four Southern States, was evident in the increase of share of the non-Southern States from 27% as on 31 March 2001 to 38% as on 31 March 2004 and further to 42% as on 31 March 2005.

Having linked over 15 lakh SHGs with various financial institutions, as many as 2.425 crore rural poor families have credit access from the formal financial system thereby covering nearly 12 crore rural poor under the programme. Thus, the microFinance Programme in India has attained a leading position all over the world in both numerical and financial terms. The Bank now aims to cover 3 crore rural poor families by linking 20 lakh SHGs by 31 March 2007. For the current year (2005-06) a target of credit linking 2.5 lakh SHGs has been envisaged. While 50% of this target would be achieved by commercial banks, the rest 50% will be credit linked by the regional rural banks and the cooperative banks.

Capacity building of the stakeholders has been the prime intervention by NABARD in scaling up the Programme.

These efforts have also enabled retention of the stakeholders' commitment to the programme, on a sustainable basis. Capacity Building of partner agencies through intensive training of staff attached to Non Governmental Organisations (NGOs)/ Voluntary Organisations (VOs), rural financial institutions, various government agencies, individual volunteers, SHG leaders and members etc. has largely contributed to the even but rapid spread of the programme throughout the country. The microFinance sector has undergone tremendous changes over the years with the advent of new players and adoption of innovative approaches.

NABARD has reviewed its training and capacity building approaches from time to time for improving its effectiveness, efficiency and coverage etc.

Recently, NABARD has also taken up an exercise on capacity building of the matured SHG members to take up various types of microEnterprises to enhance their income generating skills and Pilot Projects have been taken up in 10 selected Districts in 10 States. The success of the Pilot scheme will lead to replication of the programme throughout the country in due course of time.

NABARD has launched a scheme for financial rating of microFinance Institutions (mFIs). This would facilitate credit support from commercial banks and regional rural banks to deserving mFIs for onlending to their clients. The scheme will benefit mFIs in enhancing confidence levels of Bankers in providing financial support to mFIs for onlending to the rural poor. NABARD is also in the process of initiating steps to provide training for staff of mFIs and Banks for better understanding and smoothening credit flow processes to the poor through mFI channels.

INTEREST ON LOANS TO STAFF BY SCBs/DCCBs

RBI had authorised all SCBs and DCCBs to use their discretion to pay additional interest not exceeding one percent to bank's staff and their exclusive associations in respect of a savings or term deposit accounts opened in the name of:

(a) a member or a retired member of the bank's staff, either singly or jointly with any other member or members of his/her family; or

(b) the spouse of a deceased member or a deceased retired member of the bank's staff; and

(c) an Association or a fund, members of which are the members of the bank's staff a State / Central Cooperative Bank Banks were however advised to obtain a declaration from the depositor concerned, that the monies deposited into such account, shall be monies belonging to the depositor.

It has, however, been observed, of late, that some of the SCBs / DCCBs have been paying additional interest in the deposit accounts of their staff, without obtaining the required declaration which was in violation of the aforesaid RBI Directive. NABARD, therefore, advised these banks to review all the staff deposit accounts on which additional interest has been paid and ensure obtaining the requisite declaration from all concerned.

Circular No.86/DoS-15/2005 dated 16 May 2005)

ACCIDENT INSURANCE SCHEME FOR KCC

To safeguard the interests of the KCC holders by providing personal accident insurance coverage on an on-going basis at competitive terms, banks are allowed the discretion to approach any GIPSA member general insurance company to take advantage of the competitive offers. However, the banks may, while negotiating with the insurers, keep in mind the premium sharing formula, coverage, etc.

AGRICLINICS AND AGRIBUSINESS CENTRES

The Ministry of Small Scale Industries (SSI), Government of India has approved nine activities eligible for support under the Credit Guarantee Fund Scheme of their Ministry.

The banks have been, therefore, advised to consider the eligible nine activities for coverage under the Credit Guarantee Scheme for Small Industries and approach the Credit Guarantee Fund Trust for Small Industries (CGTSI) for necessary cover. The eligible activities are as follows :

1. Maintenance and Repairs of Agricultural Implements & Machinery including Micro Irrigation Systems
2. Agri Service Centres
(Provided that the total investment in fixed assets other than that of land and building does not exceed Rs.10 lakh.)
3. Seed Processing Units,
4. Tissue Culture,
5. Production of Bio-fertilizers, Bio-pesticides, Bio-control agents,
6. Honey and Bee Product Processing Units,
7. Feed Processing and Testing Units,
8. Setting up of Information Technology Kiosks in rural areas for access to various agriculture related portals and
9. Setting up of Cool Chain from the farm level onwards.(Provided that the total investment in plant & machinery does not exceed Rs.100 lakh and the process involves use of machinery and equipment.)

The banks will play a proactive role in providing this social security cover to the farmers. This 'add on' benefit to the farmers under the KCC Scheme is expected to bring in a large number of farmers under the KCC fold, thereby leading to complete coverage.

(Circular No.NB.109/PCD.8/2005-06 dated 07 June 2005)

ACABCs - SUBMISSION OF PROGRESS REPORTS

MANAGE, (National Institute of Agriculture Extension Management) Hyderabad is engaged in imparting free training to agriculture graduates, who are willing to set up ACABCs and enrol themselves with the institute. The training is imparted through the nodal institutes like Agriculture Universities and KVKs. These trainees are covered under the scheme and accordingly, the progress under the scheme is reported by banks in respect of units established by these graduates.

The Ministry of Agriculture on reviewing the issue has advised that since training provided by MANAGE is supplementary in nature, all the agriculture graduates, both trained and not trained by MANAGE, may be encouraged to set up ACABC units and be counted for the purpose of reporting under the scheme, against the targets set.

The banks have been advised to ensure clearance of pending loan applications expeditiously to facilitate setting up of ACABCs by the agriculture graduates in view of the highest priority accorded to the scheme.

The banks have also been advised to be prompt in submission of the monthly returns prescribed for reporting the progress to NABARD.

(Circular No. 117/DPD-FS/22/2005-06 dated 21 June 2005)

NABCONS UPDATE

As on 30 June 2005

Assignments completed	134
Assignments underway	48
Fees Contracted (Rs.)	15,97,53,465
Fees received (Rs.)	6,96,48,521

Assignment-wise data

Project Appraisal	28
Project Preparation	65
IVP / Capacity Building	25
Techno-eco. Feasibility Studies	25
Turnaround	2
Financial Mgmt. & Debt Restructuring	10
Monitoring & Evaluation Studies	27

RELIEF MEASURES TO FARMERS AFFECTED BY NATURAL CALAMITIES

Guidelines for providing relief to farmers whose crops are damaged due to natural calamities, by way of conversion of short-term agricultural loans into medium-term loans and rephasing / reschedulement of converted loans in the event of occurrence of natural calamities have been slightly modified.

Consequent upon change in the policy for provision of refinance to SCBs for financing Seasonal Agricultural Operations (SAO), specially in the context of sanctioning of a consolidated limit to SCBs in respect of eligible DCCBs, it has become necessary to effect changes in the policy. Accordingly it has been decided to sanction a consolidated limit under medium-term conversion / rephasing / reschedulement to SCB in respect of eligible DCCBs w.e.f. 2005-06.

The eligibility norms as stipulated for sanction of ST (SAO) limits for the relevant year will also be applicable for sanction of MT conversion / rephasing / reschedulement. For example, for conversion of kharif 2004 loans, the eligibility criteria as stipulated under ST(SAO) for 2005-06 will be applicable.

Further, the present pattern of sharing between NABARD, State Govt., SCB and DCCBs is in the ratio of 60:15:10:15 respectively of the ground level conversions. Under the revised

REIMBURSEMENT OF CONVEYANCE EXPENSES

As regards claims for reimbursement of conveyance expenses for maintaining vehicle by officers, it has been decided to do away with the present practice of submission of monthly/quarterly applications for claims. Instead, each officer will give an undertaking in first week of May/July along with claim for first month/quarter to the effect that the officer will maintain the vehicle throughout the financial year. Based on the undertaking the Bank will reimburse the officer for the subsequent months/

procedure, the refinance assistance from NABARD and State Govt. will continue to be 60% and 15% of the ground level conversion. Balance 25% will have to be shared by SCBs and DCCBs in a mutually agreed proportion.

HO CGMs OVERSEEING ROs

It has been decided that CGMs from Head Office will oversee work of smaller States, as per the allocation given below-

Shri P. L. Behera	Uttaranchal
Shri K. V. Raghavulu	Himachal Pradesh
Shri Sukhbir Singh	Jharkhand
Shri C. R. Patnaik	Chattisgarh
Shri S. R. Aluru	J & K
Shri S. G. Rathod	Goa
Shri A. K. Jain	Sikkim

PROMOTIONS/POSTINGS

Shri U. N. Srivastava, GM (Law) has been promoted as CGM (Law) with effect from 1 June 2005.

Shri V. Ramakrishna Rao, CGM, Rajasthan has been transferred as CGM, Andhra Pradesh vice Shri J. R. Sarangal CGM, Andhra Pradesh transferred as CGM, Rajasthan.

Dr. G. D. Banerjee, DGM, Mumbai has been transferred as OIC, Nagaland office vice Shri R. C. Wadhwa, DGM transferred to Mumbai.

Shri J. C. Mishra, Jt. Director, BIRD has been transferred as OIC, Mizoram vice Shri G. V. Hebbar, DGM transferred to Bangalore.

quarters of the year. The officer will also undertake to intimate in time, the changes if any, in maintaining the vehicle (on account of sale/transfer/promotion etc.) and will refund the amount paid in excess, if any, on account of delay in receipt of such intimation.

On completion of the financial year, each officer will submit a certificate that he/she maintained the vehicle during the previous year. The insurance charges may be reimbursed separately based on documentary evidence.

PORTFOLIOS OF EDs

It has been decided that the allocation of work and placement of Executive Directors will be as follows

Dr. K. G. Karmakar

(Located at Mumbai)

Regional Offices :

Andhra Pradesh, Rajasthan, Tamil Nadu, Gujarat, Orissa, Madhya Pradesh and All Training Establishments

HO Departments

FAD, RMD, PMD, DoS, mCID, CPD, SPD, HRDD, Secretary's Department

Shri S. K. Mitra

(Located at New Delhi)

Interface with Gol, Multilateral Agencies and International Organisations

Regional Offices :

New Delhi, Uttar Pradesh, Punjab & Haryana

Shri S. S. Acharya

(Located at Mumbai)

Institutional Development and Restructuring of ST/LT co-operative credit institutions and implementation of VC1 and VC2

Regional Offices :

All States where recommendations of Vaidyanathan Committee have been accepted for implementation

HO Departments:

IDD, ICD, PCD, GAD, PD, TSD

Shri R. Balakrishnan

(Located at Mumbai)

Regional Offices :

Maharashtra, Kerala, Bihar, West Bengal and Karnataka

HO Departments:

DPD-FS, DPD-NFS, ID, Law, Rajbhasha, DIT, DEAR, DISCS, NABCONS

Shri Amaresh Kumar

(Located at Guwahati)

Overall development of N E States

Regional Offices :

All States in N E Region

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EDITORIAL ADVISORS

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