



NABARD

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UNION BUDGET 2005-06 - EXTRACTS OF SPEECH BY THE FINANCE MINISTER

The National Common Minimum Programme mandated the Government to provide universal access to education and health care and to assure one hundred days of employment to one person in each family.

We have also fulfilled many of our promises to the common citizen. Last year, I had promised that agricultural credit will be increased by 30 per cent, and I am happy to inform the House that, against the announced target of Rs.105,000 crore, we are likely to achieve a disbursement of Rs.108,500 crore. Public sector banks and regional rural banks have added so far 58.20 lakh new farmers to their portfolio of borrowers.

I had promised that we would promote the concept of Self-Help Groups vigorously. In the current year, against the target of 1.85 lakh SHGs, we have already credit-linked 2.26 lakh SHGs, and we have disbursed credit to the tune of Rs.1,197 crore. Hon'ble Members will note that in each of these areas the focus of the Government's attention has been the common citizen – be it farmer, student, self-employed woman or labourer in search of work and food.

Rural Infrastructure : Government will focus on providing basic infrastructure to the poor, especially those in rural India and in urban slums. The Rural Infrastructure Development Fund which was revived last July will, as in the current year, be provided a corpus of Rs.8,000 crore in 2005-06 also.

Bharat Nirman : In his address to Parliament, the President outlined an overarching vision to build India, and called it 'Bharat Nirman'. Bharat Nirman has been conceived as a business plan, to be implemented over a period of four years, for building infrastructure,

especially in rural India. It will have six components, namely, irrigation, roads, water supply, housing, rural electrification and rural telecom connectivity. In each of these areas, we must dare to be bold and set for ourselves high targets to be achieved by the year 2009. The UPA Government's goals are:

- to bring an additional one crore hectares under assured irrigation;
- to connect all villages that have a population of 1000 (or 500 in hilly/tribal areas) with a road;
- to construct 60 lakh additional houses for the poor;
- to provide drinking water to the remaining 74,000 habitations that are uncovered;
- to reach electricity to the remaining 1,25,000 villages and offer electricity connection to 2.3 crore households; and
- to give telephone connectivity to the remaining 66,822 villages.

'Bharat Nirman' will require huge resources. Government believes that Bharat Nirman is an achievable project, and it is our intention to give rural India a new deal fully involving the Panchayati Raj Institutions in the planning and implementation.

Agriculture : With about two thirds of the population dependent on agriculture, and the sector producing only 21 per cent of GDP in 2003-04, it is imperative that we address the problems of our farmers with a sense of urgency. Agriculture being a State subject, the bulk of public investment in agriculture takes place at the State level, and the Central Government's support to States acts as a catalyst.

Roadmap for Agricultural Diversification : Indian agriculture has

indeed diversified from food grains to other crops, but more needs to be done. The Ministry of Agriculture will prepare a roadmap for agricultural diversification. The road map will focus on fruits, vegetables, flowers, dairy, poultry, fisheries, pulses and oilseeds.

National Horticulture Mission : The National Horticulture Mission, announced in the last Budget, will be launched on April 1, 2005. I propose to allocate Rs.630 crore in 2005-06 for the Mission. The Mission will ensure an end-to-end approach having backward and forward linkages covering research, production, post-harvest management, processing and marketing, under one umbrella, in an integrated manner. As the Mission gathers pace, more funds will be provided.

Plantation Sector : I am aware of the difficulties that the plantation sector has faced for some years now. While the prices of commodities such as tea and coffee have shown some improvement, the sector still faces difficulties. The Price Stabilization Fund has not proved very effective or popular. Therefore, Government has set up an expert committee to suggest improvements to the Fund and its operation. In the case of tea, our comparative advantage has been eroded largely because of the declining productivity of tea. Government will examine ways and means of introducing a programme for massive replantation and rejuvenation.

Agricultural Marketing Infrastructure : Government proposes to introduce a new scheme called Development/ Strengthening of Agricultural Marketing Infrastructure, Grading and Standardization. The goal of this scheme is to induce large investments from the private and cooperative sectors for setting up agricultural markets, marketing infrastructure and support

services such as grading, standardization and quality certification. Assistance will be available in the form of credit-linked, back-ended subsidy. It is proposed to implement the scheme through the National Bank for Agriculture and Rural Development (NABARD) and the National Cooperative Development Corporation (NCDC) in those States which amend their Agricultural Produce Marketing Committee (APMC) Acts. I propose to allocate Rs.72 crore for the new scheme.

Water Resources, Flood Management and Erosion Control :

The National Project, announced by me last July, for the repair, renovation and restoration of water bodies will be launched in the month of March 2005. The pilot project is planned for 16 districts in 9 States and will cover nearly 700 water bodies, and 20,000 hectares of additional land will come under irrigation. The allocation for the pilot project has been increased to Rs.100 crore in 2005-06. Uttar Pradesh, especially its eastern part, Bihar, West Bengal, Orissa, Assam and the North Eastern States are regularly affected by floods in the Ganga basin and in the Brahmaputra and Barak valleys. A Task Force constituted to recommend measures for flood management and erosion control has submitted its report. The Plan outlay in 2005-06 to implement the report will be Rs.180 crore. Besides, a sum of Rs.52 crore has been allocated for the Farakka Barrage Project.

The Accelerated Irrigation Benefit Programme (AIBP) has been reviewed and the focus turned to early completion of truly last mile projects. In BE 2004-05, I had provided a sum of Rs.2,800 crore. Having regard to the improvement in the pace of implementation, the outlay has been increased to Rs.4,800 crore for the next year.

Micro Irrigation : Water-use efficiency in Indian agriculture is one of the lowest in the world. Government will promote micro-irrigation technology, comprising drip and sprinkler irrigation, on a large scale. About 1.2 million hectares have been covered under micro-irrigation so far, and the plan is to increase the coverage to 3 million hectares by the end of the Tenth Plan and to 14 million hectares by the end of the Eleventh Plan. Accordingly, I have provided

Rs.400 crore for promoting micro-irrigation in 2005-06.

Rural Credit and Indebtedness :

Government intends to continue with its effort to turn the focus of commercial banks, regional rural banks (RRBs) and cooperative banks towards providing credit, especially production credit, to rural households and farm households. Particularly in agricultural credit, innovations are possible. I propose to request the Reserve Bank of India (RBI) to examine the issue of allowing banks to adopt the agency model, by using the infrastructure of civil society organizations, rural kiosks and village knowledge centres, to provide credit support to rural and farm sectors.

In June 2004, I had announced my intention to double the flow of agricultural credit in three years. I had also announced an indicative target of Rs.105,000 crore. Notwithstanding a below par performance by co-operative banks, together, all three arms will disburse Rs.108,500 crore in the current year. Continuing on the same path, I propose to ask commercial banks, RRBs and cooperative banks to increase the flow of credit by another 30 per cent in 2005-06. Further, the public sector banks would be asked to increase the number of borrowers by another 50 lakh.

Cooperative banks in India, with few exceptions, are in a shambles. Six State Central Cooperative Banks and 140 District Central Cooperative Banks do not comply with Section 11 of the Banking Regulation Act, 1949. They also have difficulty in accessing refinance for agricultural credit. Alarmed by the gravity of the situation, I had appointed a Task Force to examine the reforms required in the cooperative banking system. The Task Force has submitted its report. The recommendations include:

- Special financial assistance to wipe out accumulated losses and strengthen the capital base of co-operative credit institutions;
- Institutional restructuring to ensure democratic institutions; and
- Changes in the legal framework to empower RBI to enforce prudent financial management. I propose to accept the report in principle. I also propose to call State Governments

for consultation and begin the process of implementing the recommendations in the States that show willingness to accept the recommendations.

Farm Insurance : The National Agricultural Insurance Scheme (NAIS) has been in operation since rabi 1999-2000. I have received the recommendations made by the joint group constituted by the Ministry of Agriculture to suggest an improved farmer-friendly crop insurance scheme. Further consultation with all the stakeholders would be required. I, therefore, propose to continue the NAIS in its present form for kharif and rabi 2005-06.

Micro Finance : The programme of linking Self Help Groups (SHGs) with the banking system has emerged as the major micro-finance programme in the country. 560 banks including 48 commercial banks, 196 RRBs and 316 cooperative banks are now actively involved in the programme. I propose to enhance the target for credit-linking in the next fiscal from 2 lakh SHGs to 2.5 lakh SHGs.

At present, micro finance institutions (MFIs) obtain finance from banks according to guidelines issued by RBI. MFIs seek to provide small scale credit and other financial services to low income households and small informal businesses. Government intends to promote MFIs in a big way. The way forward, I believe, is to identify MFIs, classify and rate such institutions, and empower them to intermediate between the lending banks and the beneficiaries. Commercial banks may appoint MFIs as "banking correspondents" to provide transaction services on their behalf. Since MFIs require infusion of new capital, I propose to re-designate the existing Rs.100 crore Micro Finance Development Fund as the "Micro Finance Development and Equity Fund", and increase the corpus to Rs.200 crore. The fund will be managed by a Board consisting of representatives of NABARD, commercial banks and professionals with domain knowledge. The Board will be asked to suggest suitable legislation, and I expect to introduce a draft Bill in the next fiscal year.

I propose to request RBI to open a window to enable qualified NGOs

engaged in micro-finance activities to use the External Commercial Borrowing (ECB) window. Detailed guidelines containing necessary safeguards will be issued by RBI.

Micro Insurance : The benefits of opening the insurance sector are now visible by way of vast improvement in insurance penetration and insurance density, and the availability of a wide variety of products. Government would like to see these benefits percolate to rural India and to the vulnerable sections of the population. Micro insurance is a distinct product. Its design and delivery are specialized functions. The Insurance Regulatory Development Authority (IRDA) has published draft Regulations for micro insurance. NGOs, SHGs, cooperatives and MFIs will be invited to become micro insurance agents. Government will extend full support to the effort of IRDA to promote micro insurance.

A Knowledge Centre in Every Village:

The National Commission on Farmers has recommended the establishment of Rural Knowledge Centres all over the country using modern information and communication technology (ICT). Mission 2007 is a national initiative launched by an alliance comprising nearly 80 organizations including civil society organizations. Their goal is to set up a Knowledge Centre in every village by the 60th anniversary of Independence Day. Government supports the goal, and I am glad to announce that Government has decided to join the alliance and route its support through NABARD. I propose to allow NABARD to provide Rs.100 crore out of RIDF.

Agricultural Research : Agricultural Research has a vital role to play in the strategy for reviving and encouraging diversification. Our agricultural universities and research institutions have done good work in the past and now need to be strengthened and modernized. A Task Force headed by Dr. M.S Swaminathan has recommended the creation of a National Fund for Strategic Agricultural Research. I am happy to announce an initial provision of Rs. 50 crore for operationalizing this Fund.

The Government proposes to adopt the cluster development approach for the

production and marketing of handloom products. The Ministry of Textiles will take up 20 clusters in the first phase at a cost of Rs.40 crore, and the amount will be provided during the course of the year.

The Government is implementing a life insurance scheme for handloom weavers which provides insurance cover up to Rs.50,000. At present, only 2 lakh weavers are covered. I propose to enlarge the coverage of the scheme to 20 lakh weavers in two years which will cost Rs.30 crore per year when fully rolled out. The Government is also implementing a health insurance package for weavers. Here too, the coverage is now only for 25,000 weavers. I propose to increase the coverage to 2 lakh weavers at a recurring cost of Rs.30 crore per year. Once the two new and enlarged schemes are approved, I propose to provide the required funds.

Sugar Industry : The sugar industry has been under financial stress since 2001. The position became worse due to two successive droughts in certain parts of the country. The Tuteja Committee appointed by the Government has submitted its report. After a careful examination of the report, and after consulting RBI and NABARD, I propose the following financial package for the revitalization of the sugar industry:

- Sugar factories that were operational in 2002-03 sugar season will be assisted to restructure. NABARD, in consultation with State Governments, RBI, banks and financial institutions will work out a scheme for providing a financial package with a moratorium of two years, on both principal and interest, and a schedule of payment having regard to the commercial viability of each unit.
- Government has already reduced the rate of interest on loans from the Sugar Development Fund to 2 percentage points below the bank rate. I propose to make the same rate applicable to outstanding loans as on October 21, 2004.
- Indian Banks' Association (IBA) and NABARD will be asked to work out a scheme under which individual

sugar factories may renegotiate the rate of interest on their past high interest loans.

PURA Clusters : The unorganized or informal sector accounts for 92 per cent of the employment and absorbs the bulk of the annual accretion to the labour force. PURA or Provision of Urban Amenities in Rural Areas is an idea that contains within itself possible solutions to a number of problems that afflict rural India such as unemployment, isolation from markets, lack of connectivity and migration to cities. The National Commission on Enterprises in the Unorganized/ Informal Sector has proposed pilot projects for 'growth poles' applying the PURA principles. The objectives are to expand production and employment in the unorganized enterprises around existing clusters of industrial activities and services as well as encourage the formation of new clusters. Once the proposals are firmed up, Government will take up the creation of a few growth poles, as pilot projects, in 2005-06.

Banking : I had promised that a comprehensive Bill to amend the Banking Regulation Act, 1949 will be introduced in the Budget Session. In consultation with the RBI, I propose to introduce amendments to the Act –

- to remove the lower and upper bounds to the statutory liquidity ratio (SLR) and provide flexibility to RBI to prescribe prudential norms;
- to allow banking companies to issue preference shares, since preference share capital can be treated as regulatory capital under specified circumstances as per Basel norms;
- to introduce specific provisions to enable the consolidated supervision of banks and their subsidiaries by RBI in consonance with the international best practices in this regard; I also propose to introduce amendments to the Reserve Bank of India Act, 1934.
- to remove the limits of the cash reserve ratio (CRR) to facilitate more flexible conduct of monetary policy; and - to enable RBI to lend or borrow securities by way of repo, reverse repo or otherwise.

EXPORT PROSPECTS OF MANGOES - CONSULTATION MEET

A consultation workshop was organized by NABARD at Mumbai on 23rd February 2005 to identify credit and development related issues pertaining to export of fresh mangoes and processed mango products and suggest measures to address them. The growers, exporters, banks, corporate houses, NGOs and policy makers were brought under one forum for discussion and to frame steps to increase export of mangoes and mango products from India. The workshop was well attended and made the following recommendations :

- The varieties, production technologies and package of practices should be market driven based on the international demand.
- Promoting adoption of regular bearing and best quality varieties having international acceptance by the farmers in major mango growing areas in the country .
- Making available basic infrastructure facilities along with pre-cooling, cold storages and processing units.
- Providing information on international standards like CODEX, HACCP, ISO, etc. to growers and exporters.
- Krishi Vigyan Kendras (KVKs) in mango growing areas to play major role for transfer of technologies to the farmers.
- Quick dissemination of need based information on Global market intelligence by the authorities.
- Displaying wealth of Indian Mango varieties in international events like trade fairs, trade festivals and agriculture exhibitions.
- Encouraging Cluster approach to produce mangoes exclusively for export.
- Common branding for each Indian variety to increase its share in the world market.

- Promoting contract farming in AEZ areas of Mango. Public-Private partnership should be strengthened.
- Designing suitable packaging materials to improve vase life of mangoes for export purpose.
- Constant interaction between, growers, bankers, academicians, govt. authorities, exporters to share the information on regular basis.
- Organising more training programmes/exposure visits for the benefit of the farmers in mango growing regions/abroad
- Make use of Model bankable projects on mango prepared by NABARD by the financing banks while providing need based credit.
- Alternate mechanism outside APMC be created for marketing of mango and innovative marketing strategies should be evolved
- Providing insurance coverage during crop failure
- Nutritional benefits of Alphonso mango should be marketed
- Agriculture Universities should become the nodal agencies for technical coordination
- Export Hub could be established in Mumbai.

INTEREST RATE ON REFINANCE

NABARD has raised its rate of interest on refinance in respect of lowest slab from 5.5% p.a. to 6% p.a. with effect from 16 March 2005. The new rate of interest will be applicable on schematic refinance for Farm and Non farm sectors availed by all the financing agencies viz. Commercial Banks, State Cooperative Banks, State Agriculture & Rural Development Banks, scheduled

Primary Urban Cooperative Banks and Agriculture Development Finance Companies.

Interest on refinance irrespective of size of the loan will be 6% pa in respect of all the purposes for North Eastern Region including Sikkim and Andaman & Nicobar Islands and for agri clinics and agri business centres while in other regions it will be 6% pa for loans up to Rs.50000, 6.5% pa for loans up to Rs.2 lakh. In respect of loans above Rs. 2 lakh, it will be 7 % pa in respect of cold storage, rural godowns and other activities, 6.75 % pa in respect of NFS and 6.5 % pa for MI, DLF, LD, WLD, SGSY, SHGs, SC/ST Action Plan, OF, Contract Farming under AEZ, A & M, RH, FM.

Further, in case of ST (SAO), interest rate on the lowest slab has been increased by 25 basis points. Accordingly interest rate on ST (SAO) will be 5.5% pa for the banks having level of NPA up to 20% and for the banks having level of NPA more than 20%, interest rate will be 5.75% pa.

PROMOTIONS & POSTINGS

PROMOTIONS

Shri M. B. Abhyankar, GM (Tech) has been promoted to officiate as Chief General Manager in Technical Services with effect from 25 February 2005.

POSTINGS

Shri M. P. Mohanan, CGM, PCD posted to HRMD vice Shri P. L. Behera, CGM posted to GAD.

Shri N. C. Saha, CGM, GAD posted to Inspection Department vice Shri A. K. Garg, CGM posted to DPD-NFS.

Shri S.R. Aluru, CGM, DPD-NFS posted to PCD.

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