Highlights

Macro Economic Scenario

1. The Indian economy recorded an estimated growth of 3.7 per cent during 2002-03 compared to 5.6 per cent during the previous year. The deceleration in the performance was largely attributed to a decline in the growth of the agriculture sector mainly due to drought conditions in many parts of the country. The agriculture and allied sectors were expected to show a negative growth of 4.4 per cent during 2002-03, as compared to an increase of 5.7 per cent during the previous year.

2. During the year, the country received an average rainfall of only 73.6 cms., which was 19.4 per cent below the Long Period Average (LPA) of 91.3 cms. The total seasonal rainfall was excess or normal in only 15 meteorological sub-divisions covering 39 per cent of the districts and about 37 per cent of the Gross Cropped Area. Inadequate spatial and temporal distribution of rainfall and consequent drought conditions resulted in a decline in the area under both kharif and rabi crops during 2002-03. The production of foodgrains during 2002-03 was estimated at 184.1 million tonnes, a sharp decline of 13.2 per cent as compared to the previous year, mainly due to a decline of 19.7 per cent in the production of kharif foodgrains. The production of oilseeds, sugarcane and cotton was estimated to be lower by 24, 7 and 15 per cent, respectively, during the year, as compared to 2001-02.

3. The country's ultimate irrigation potential has been assessed at 139.9 million ha. So far, about 68 per cent of the potential has been harnessed. However, under-utilisation of the potential created continued to persist.

4. The agricultural credit provided by co-operative banks, commercial banks, regional rural banks and other agencies recorded a growth of 14.3 per cent, from Rs.61,942 crore during 2001-02 to Rs.70,810 crore during 2002-03. Public sector investments in agriculture had increased from Rs.3,919 crore during 2000-01 to Rs.4,794 crore during 2001-02, breaking the earlier declining trend. The private sector investments in agriculture and allied sectors increased from Rs. 14,605 crore during 1995-96 to Rs. 24,257 crore during 2000-01 at current prices. The proportion of such capital formation financed by institutional credit increased from 59.6 to 71.5 per cent during the same period.

5. During 2001-02, the livestock sector accounted for 28 per cent of the total GDP from agriculture. The production of milk increased by 4.9 per cent to 85.4 million tonnes during 2001-02, over the previous year's production of 81.4 million tonnes.

6. The share of agriculture and allied products in the total exports had declined to 12.4 per cent during 2002-03 (April-February) from 13.5 per cent during the same period of 2001-02. Important items of export were marine products, rice, cashew, tea, oil meals, etc., accounting for more than 50 per cent of total exports. Agricultural imports related to food and other items constituted 4.3 per cent of the total imports during 2002-03 (April-February), as against 4.6 per cent during the corresponding period of 2001-02.

7. Despite the global and domestic recession, the small-scale industries sector registered a growth of 7.5 per cent during the year in terms of production and employment increased by 3.9 per cent as compared to 3.6 per cent during the previous year.

Policy Initiatives

8. National Bank's policies were reoriented to help

farmers who had suffered losses due to drought conditions and natural calamities for encouraging the rural credit institutions to maintain uninterrupted credit flow.

9. Kharif crops during the year were severely affected by drought in about 400 districts in 18 states. The steps initiated by the National Bank to mitigate the adverse effects of drought included, sanction of additional short-term crop loans, conversion of short-term crop loans into medium-term loans, deferment of interest at borrower's level, relaxed eligibility norms for sanction of short-term credit limits to co-operative banks, etc.

10. In the case of district central co-operative banks not complying with Section 11(1) of B.R.Act, 1949 (AACS) even after grant of repeated exemptions by the GoI from complying with the said provisions, it was decided not to sanction any credit limit to such banks whose deposits had been eroded by 50 per cent or more from 2002-03 onwards.

11. The rates of interest on refinance to co-operative banks for various purposes were reviewed and revised (to vary between 5.5 to 8.0 per cent p.a.) with effect from 16 January 2003 in view of the softening of interest rates in the banking industry. The interest rate on refinance to SCBs for financing short-term seasonal agricultural operations in the North-Eastern Region (NER) and Sikkim was fixed at 5.5 per cent p.a.

12. In view of the comfortable resource position of RRBs and to encourage them to increasingly utilize the resources mobilized by them for provision of loans for short-term agricultural purposes, the quantum of refinance support was restricted to the extent of 30 per cent of the amount of eligible principal loans outstanding for banks with CD ratio above 60 per cent and upto 25 per cent in the case of banks with CD ratio less than 60 per cent.

13. With regard to providing long-term loans to state governments, the eligibility criteria for different co-operative credit institutions were rationalized during the year with greater emphasis on recovery management. However, in the case of institutions in the NER, liberal criteria were adopted.

14. National Bank liberalized the line of credit extended to co-operative banks for financing the marketing of crops by enhancing the ceiling on individual farmer's eligibility for loans from Rs.1 lakh to Rs.5 lakh and increased the maximum duration of credit from six months to one year.

15. National Bank continued with the policy in respect of sanction of working capital credit limits to SCBs/DCCBs for financing production and marketing activities of Primary Weavers' Co-operative Societies and marketing operations of Regional/Apex Weavers' Co-operative Societies.

16. The eligibility norms for drawing refinance in respect of co-operative banks and RRBs were relaxed in those states where recoveries were affected due to drought during the previous year. The refinance drawn by these banks under 'On-Farm Water Management Scheme for Increasing Crop Production in Eastern India' was kept outside the purview of eligibility criteria for the year 2002-03 with a view to giving an impetus to minor irrigation activities.

17. The eligibility norms for availing refinance by Scheduled Primary (Urban) Co-operative Banks were revised during the year. Only those urban banks with 'A' audit classification as on 31 March 2001, having net profits during the three years ending 31 March 2001, with no accumulated losses and gross NPAs not exceeding 10 per cent of the total loans and advances outstanding as on 31 March 2001 were made eligible.

18. In the case of commercial banks also, the eligibility criteria for availing refinance was modified. Banks with gross NPAs of 15 per cent or less could continue to avail unrestricted refinance. In case the gross NPAs of the bank as on 31 March 2001 were between 15 and 20 per cent, the refinance during the year was restricted to 30 per cent and for banks having gross NPAs of more than 20 per cent it was restricted to 20 per cent of the bank's priority sector term loans issued during the previous year.

19. With a view to operationalising the arrangements for co-financing with financial institutions in respect of hi-tech, export-oriented agricultural projects, projects involving larger financial outlays, etc., a beginning was made during the year by signing a Memorandum of Understanding (MoU) with Union Bank of India, Dena Bank, Central Bank of India, Corporation Bank and Punjab National Bank.

20. The scheme of Soft Loan Assistance for Margin Money under Non-Farm Sector (NFS) was modified during the year. The financing banks, which were earlier permitted to levy service charges of 3 per cent p.a. to borrowers, were allowed to levy service charges of upto 5 per cent p.a. for extending the margin money assistance. Interest-free refinance for such assistance is available to banks from the National Bank.

21. Considering the increased level of participation of RRBs in NFS financing, refinance facilities under NFS projects beyond Automatic Refinance Facility (ARF) units under the pre-sanction procedure were also made available to RRBs.

22. Certain relaxations under the SEMFEX-II Scheme announced during the year included provision of refinance for setting-up of petrol outlets including the cost of land to the extent of 10 per cent of the project cost, enhancing the refinance ceiling under the rural housing scheme for repairs, renovations, modifications, etc. to Rs.2 lakh for commercial banks, which were permitted to reduce/waive, at their discretion, the service charges under the Soft Loan Assistance Scheme for Margin Money.

23. Considering the potential for Information and Communication Technology (ICT) in rural areas, the National Bank requested banks to consider extending assistance for ICT-related projects, for which the Bank would provide refinance under Composite Loan Scheme and Integrated Loan Scheme under ARF.

24. As in the case of interest rates for loans under ST(SAO) to co-operative banks and RRBs, interest rates on refinance for investment credit were also reduced. The interest rate on refinance for minor irrigation, land development, dryland farming, wasteland development, Swarnjayanti Gram Swarozgar Yojanas, SC/ST Action Plan and SHGs was uniformly reduced to 6.75 per cent p.a., irrespective of the size of loan for all agencies. The interest rates on refinance for farm machanization, agri-business centres, agri-clinics, rural godowns were reduced to 6.75 per cent p.a. for loan size of upto Rs.25,000 and 7.75 per cent p.a. for loan size of above Rs.25,000 for all agencies with effect from 11 November 2002. The rates of interest on refinance for purposes other than the above, were also brought down to 6.75 per cent p.a. for loan size upto Rs.25,000, 7.75 per cent p.a. for loan size of above Rs.25,000 and upto Rs.2 lakh and 9.25 per cent p.a. for above Rs.2 lakh. The interest rate in NER including Sikkim and Andaman & Nicobar Islands was fixed at 6.75 per cent p.a., irrespective of the loan size for all purposes.

25. Further, the National Bank formulated a pilot scheme for disbursement of credit through Village Development Boards/Village Development Councils (VDBs/VDCs) in the States of Nagaland and Mizoram which, if found successful would be later replicated in other north-eastern states. The scheme envisaged the creation of a fund with a corpus ranging between Rs.1 lakh and Rs.5 lakh per VDB/VDC, contributed in agreed proportions by VDB, state government, the National Bank and the GoI. Revolving Fund for providing assistance upto four times the corpus of the VDB for their loaning operations has been proposed to be set up. The financing banks would be eligible for 100 per cent refinance from the National Bank for loans granted under the scheme.

Development Perspective

26. National Bank continued to focus on watershed development, integrated development of backward areas, promotion of cultivation of medicinal plants, agri-export zones, bio-pesticides, agri-clinics, farmer's service centres,

non-farm activities, human resource development in Rural Financial Institutions and Research and Development (R&D) activities in the areas of interest to the Bank. During the year 2002-03, ninety-seven watershed development projects were sanctioned, involving a grant of Rs.4.75 crore from the Watershed Development Fund (WDF) under the capacity building phase, raising the cumulative number to 222 and grant assistance to Rs.10.48 crore.

27. National Bank has firmed up the action plan for implementation of a pilot project for integrated development of backward blocks through the convergence of various credit and development programmes. Accordingly, ten backward blocks in five states, viz., Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu have been identified for implementation.

28. For the last four years, the Indian tea industry has been facing problems of high cost of production coupled with a fall in prices, domestic as well as international. A Working Group was set up by the RBI to study the problems faced by the Tea Industry and suggest measures to overcome the same. The recommendations of the working group were advised to all institutions connected with the tea industry.

29. To resolve some of the problems associated with availability of credit for plantation crops, a separate Plantation Industry Cell has been set up in the National Bank.

30. National Bank's scheme for financing Farmers' Service Centres (FSCs) set up in collaboration with Mahindra Shublabh Services Limited (MSSL), a wholly owned subsidiary of Mahindra & Mahindra Limited, was extended to all commercial banks in the states of Gujarat, Karnataka, Rajasthan, Tamil Nadu, Uttaranchal and Uttar Pradesh. During the year, MSSL opened 41 FSCs in these states.

31. National Bank has initiated discussions with the National Medicinal Plant Board and the Ayurvedic Drug Manufacturers' Association and other leading industries to promote cultivation of medicinal plants. The preparation of state-wise directories of manufacturers and traders and formulation of 30 bankable models of high demand species were the significant outcomes of these initiatives.

32. During the year, National Bank, Agricultural Food Product Export Development Authority (APEDA) and Export Import (EXIM) Bank entered into an MoU to synergise efforts in the promotion of agri-exports. National Bank has also advised banks that refinance support to commercial banks for financing agri-production activities in the Agri-Export Zones would be available. Investors' conferences to discuss the issues concerning agri-exports with Bankers, EXIM Bank and APEDA were also organized by the National Bank during the year.

33. In pursuance of the announcement made in the Union Budget, 2002-03 for setting-up of an Agriculture Insurance Corporation for farmers, a new company, viz., 'Agriculture Insurance Company of India Limited' was established and registered on 20 December 2002 under the Companies Act, 1956 with the authorised and paid-up capital of Rs.1,500 crore and Rs.200 crore, respectively. The National Bank's contribution in the equity is 30 per cent, while the contribution from General Insurance Company is 35 per cent and 8.75 per cent each from four other Insurance Subsidiaries. The Company is poised to launch its operations soon.

34. To explore the possibility of extending larger credit support for sustainable dairy development, a Regional Seminar on 'Meeting Challenges in Dairy Development through Credit' was organized in December 2002 by the National Bank.

35. National Bank extended DRIP to 18 more districts in different states taking the total number districts covered to 61. A grant assistance scheme for providing limited support to Panchayati Raj Institutions (PRIs) for construction of rural haats in the DRIP districts was introduced, which also provides soft loan assistance upto Rs.2 lakh through PRIs/PACS for creation of additional

facilities in the rural areas.

36. The handloom sector occupies a significant place in the rural economy in terms of potential for employment and income generation. Keeping this in view, the National Bank, during 2002-03, formulated a scheme, viz., 'Skill Upgradation and Design Development for Handloom Weavers (SUDHA)' for improving the quality of handloom products.

37. National Bank continued to support gender development programmes by providing Assistance to Rural Women for Non-Farm Development (ARWIND) scheme and Assistance for Marketing of Non-Farm Products (MAHIMA). National Bank sanctioned a promotional grant of Rs.4.22 lakh, thus taking the cumulative support under MAHIMA to Rs.47.56 lakh covering 19 projects by 31 March 2003.

38. During the year, the National Bank had set up 11 District Development Managers' (DDM) offices taking the total number of such offices to 330. National Bank also intensified its efforts towards capacity building of DDMs by arranging training programmes and business meets for them.

39. Various Parliamentary Committees visited the National Bank during the year and discussed matters relating to functioning of the Bank. The National Bank also held discussions with the Union Ministry of Rural Development to explore the possibility of private sector participation in the development of wastelands across the country. A workshop to understand the problems faced by banks in increasing the flow of credit in the NER was organised by the National Bank at Guwahati. The issues that emerged in the workshop have been taken up with the respective state governments.

40. Chairman and Managing Director visited nine states and held discussions with their Chief Minsiters and Senior Government Officials on issues relating to flow of credit to agriculture and rural development, institutional development, problems faced by co-operative credit institutions and implementation of projects sanctioned under RIDF.

41. National Bank also conducted various training programmes through its own Colleges for the benefit of the personnel of Rural Financial Institutions.

Institutional Development

42. The functioning and performance of co-operative banks, in general, continued to suffer from several weaknesses that do not augur well for building-up their ability to compete with the banking structure in the emerging liberalized economic environment. In view of this, the National Bank continued its efforts in strengthening rural financial institutions particularly co-operative banks and RRBs. This has become all the more important in the context of the on-going financial and banking sector reforms.

43. The profitability of SCBs and DCCBs during the year 2001-02 improved as compared to the previous year, while that of SCARDBs and PCARDBs declined. There was a wide state-wise variation in the performance of co-operative banks, the major deficiency commonly observed being poor recovery of loans and accumulated losses.

44. The high proportion of NPAs to the outstanding loans and advances in the co-operative banks, which further increased in the case of SCBs, DCCBs and PCARDBs as on 31 March 2002 compared to the previous year, continued to be an area of serious concern. The co-operatives, however, have made adequate provisions as against those required. During the year, with a view to reducing NPAs, the National Bank issued guidelines to co-operative banks for compromise settlement of dues through 'Lok Adalats'.

45. The performance results of co-operative banks during 2001-02 indicated a positive net margin of 0.18 and 0.02 as a percentage to working funds for SCBs and DCCBs as a group, respectively. However, in the case of SCARDBs and PCARDBs, the net margin was negative at 1.70 and 1.46 per cent, respectively.

46. In the case of RRBs, revamping exercise with capital infusion had a very positive impact on their performance. Quantitative as well as qualitative improvements in the performance of RRBs were observed during 2001-02, although, they varied widely across the country.

47. National Bank took certain specific policy initiatives in consultation with the GoI and the RBI to improve the performance of RRBs. These included exemption of RRBs from practice of mark to market norms, introduction of scheme for inter-bank redeployment of staff, granting relaxation from the service area approach, etc.

48. The exercise of preparing institution-specific Development Action Plans by co-operative banks and entering into MoUs continued during the year. The process of 'Organisation Development Intervention' (ODI) also continued and 123 RRBs and 20 DCCBs were covered during the year. Further, National Bank provided financial support for the developmental initiatives of co-operative banks such as, training of co-operative banks' personnel, computerization, vehicles for effective recovery performance, etc., by providing grant and soft loan assistance from its 'Co-operative Development Fund'. The total amount of grant support/loan provided during the year aggregated Rs.6.02 crore.

49. Under the Vikas Volunteer Vahini (VVV) programme of the National Bank, 1,626 new Farmers' Clubs were promoted during the year. Some select Farmers' Clubs were also encouraged to participate in promoting SHGs. In all, 1,123 Clubs had organized 10,726 SHGs as at the end of March 2003.

microFinance

50. Developing and promoting SHGs and other microFinance Institutions continued to be a thrust area of the National Bank during 2002-03. During the year, 2,55,882 new SHGs were credit linked. From a modest beginning of linking of 500 SHGs in 1992, the microFinance initiatives of the National Bank has made significant strides involving over 31,000 rural outlets of more than 500 banks, with a loan portfolio of Rs.2,049 crore and has taken the formal banking system to 116 lakh very poor households through 7,17,360 SHGs, hand-held by over 2,800 partners. Bank loans disbursed to SHGs during the year aggregated Rs.1,022.33 crore involving a refinance of Rs.622.33 crore by the National Bank.

51. Among the states, Andhra Pradesh, Tamil Nadu, Karnataka, Orissa, Uttar Pradesh, West Bengal, Rajasthan, and Maharashtra recorded a significant increase in the promotion and linkage of SHGs during the year. Around 90 per cent of the SHGs linked to banks were exclusive women SHGs. The level of loan recovery from SHGs consistently remained at more than 95 per cent. As at the end of March 2003, 48 commercial banks, 192 RRBs and 264 co-operative banks were participating in the programme. The participation of NGOs also increased to 2,800 as at the end of March 2003.

52. During the year, the National Bank provided promotional grants to the tune of Rs.3.65 crore to 243 NGOs for promotion and credit linkage of about 24,332 SHGs. A grant support of Rs.210.87 lakh was provided to 69 RRBs for promoting and linking of 27,150 SHGs. Further, Farmers' Clubs under VVV programme of the Bank were provided grant support of Rs.22.52 lakh for promotion of 5,765 SHGs.

53. Under the pilot scheme of supporting initiatives of individual volunteers in organizing the rural poor into SHGs, a grant support of Rs.17.25 lakh provided for promotion and nurturing of 1,250 SHGs through 125 individual rural volunteers resulted in the promotion of 318 SHGs.

54. National Bank sanctioned an assistance of Rs.18.33 crore to 29 agencies under the scheme of providing Revolving Fund Assistance to NGOs for undertaking financial intermediation, of which Rs.11.96 crore was released to 27 agencies as at the end of March 2003. The National Bank also initiated certain specific steps to promote and popularize microFinance in backward areas such as, NER and KBK regions of Orissa. In the NER, 4,069 SHGs

and in the KBK region of Orissa, 18,934 SHGs have been credit linked by 31 March 2003.

55. National Bank continued to provide financial and other support to its partner institutions in microFinance such as, banks, NGOs and government agencies for their capacity building. As many as 2,053 awareness creation and capacity building programmes on microFinance for the benefit of 1,40,044 SHG members and 841 special awareness/refresher programmes, etc., for banks and other agencies were organized during the year.

56. National Bank continued to collaborate with external agencies like Swiss Agency for Development Cooperation for improving the efficiency of credit delivery to rural borrowers and GTZ, Germany for capacity building. The cumulative reimbursement availed from the GTZ aggregated Rs.4.11 crore as on 31 March 2003. A national seminar on SHG-bank linkage was organised by the Bank in collaboration with SDC, GTZ and IFAD in November 2002.

Research & Development Activities

57. During the year, an amount of Rs.6.94 crore was disbursed from the R&D Fund of the National Bank. These include mainly, Rs.5.78 crore for training activities and Rs.0.61 crore under NABARD Chair Scheme. During 2002-03, five research projects/studies involving a grant support of Rs.29.98 lakh were sanctioned and three research projects/studies sanctioned earlier were completed. The recommendations and findings of these studies were considered for internalisation.

58. National Bank provided grant support amounting to Rs.29.90 lakh to various universities and research institutes for conducting 60 seminars, conferences and workshops on themes related to animal husbandry, plantation and horticulture, bio-technology, fisheries, water and land resource management, agricultural marketing, WTO and related issues, rural indebtedness, etc. An Occasional Paper entitled 'Oilseeds Production, Processing and Trade: A Policy Framework' was published and ten topics for preparation of such papers were identified during the year.

59. National Bank continued to encourage setting-up and strengthening of TME Cells in co-operatives and RRBs for bringing about diversification in their lending. Assistance was extended to four RRBs under the scheme during 2002-03. So far, 117 RRBs, 9 SCARDBs and 5 SCBs have availed of the facility. Similarly, the National Bank's support for employing Tribal Credit Specialists by co-operative banks operating in tribal areas also continued during the year. A grant support of Rs.1.69 lakh was provided during 2002-03, taking the cumulative disbursement to Rs.23.16 lakh. The National Bank continued to support five Chair Units set up under the NABARD Chair Unit scheme.

60. Apart from the above activities, the R&D Fund was also utilised for training personnel of client institutions, viz., commercial banks, RRBs, co-operative banks and state governments.

61. Besides the studies assigned to outside research institutions, the National Bank also conducted 12 ex-post evaluation studies, in-house, during the year.

Supervision over Banks

62. During the year, the National Bank conducted statutory inspection of 298 banks (SCBs, DCCBs and RRBs) and inspection of 16 apex level institutions including SCARDBs. The inspection reports observed that some of the weaknesses that continued to plague the functioning of these banks/institutions were mainly due to inadequate provisioning for impaired credits/assets resulting in inflated profits or reduced losses, improper application/ implementation of Income Recognition and Asset Classification (IRAC) norms and decreasing trend in profits of co-operative banks.

63. The Board of Supervision (BoS) for SCBs, DCCBs and RRBs, constituted to provide guidance and direction to the National Bank on matters relating to supervision,

reviewed the findings of inspection and monitoring reports during the year. The BoS expressed concern over deterioration in the financial position of many co-operative banks, in particular, with respect to banks which have not been able to maintain minimum capital of Rs. one lakh over a long period. The BoS has also suggested examining additional disclosures to be made by the co-operative banks in their balance sheets for bringing in more transparency.

64. During the year, BoS also reviewed the performance of co-operative credit institutions in Andhra Pradesh, Bihar, Haryana, Madhya Pradesh, Maharashtra, Uttar Pradesh and West Bengal. The state governments were requested to initiate steps towards strengthening the co-operative credit structure, particularly in respect of banks where the erosion in their asset value had affected their owned funds. Discussions were held with senior state government officials of Gujarat, Himachal Pradesh, Kerala, Orissa and West Bengal drawing their attention to the financial health of the apex level co-operative credit institutions.

65. As on 31 March 2003, 8 SCBs and 144 DCCBs were not complying with the minimum share capital requirement as prescribed under the relevant Act.

Review of Operations

66. The total ground level credit for agriculture and allied activities was estimated to have reached Rs.70,810 crore during the year, registering a growth of 14.3 per cent over the previous year. The aggregate ground level credit flow during the Ninth Five Year Plan period increased at an annual compound rate of 18 per cent. There was substantial increase in the credit flow for hi-tech agriculture during the plan period.

67. The Kisan Credit Card (KCC) scheme introduced in 1998-99 for issuing short-term loans for Seasonal Agricultural Operations (SAO) is being implemented in all states and union territories by all Public Sector Banks, SCBs/DCCBs and RRBs. During the year 2002-03, these banks issued 76.11 lakh KCCs. Since inception of the scheme, these agencies have issued 313.45 lakh KCCs, of which, co-operative banks accounted for the largest share (62%) followed by commercial banks (30%) and RRBs (8%). The implementation of the scheme helped in augmenting the ground level credit (GLC) flow for short-term credit as revealed from the annual growth rate of 18 per cent in the post-implementation period (1999-2003) as compared to 16 per cent in 1998-99, over the previous year.

68. Short-term credit limits sanctioned to SCBs and RRBs during 2002-03 for SAO aggregated Rs.6,674.52 crore and Rs.1,252.36 crore, respectively. The maximum outstanding level reached by SCBs as a group was about 81 per cent of the credit limits sanctioned. The credit limits sanctioned to RRBs for other than seasonal agricultural operations were Rs.153.42 crore. Short-term credit limits sanctioned to SCBs for financing Weavers' Co-operative Societies during the year aggregated Rs.550.93 crore and the maximum outstanding reached was 63 per cent of the limits sanctioned.

69. Medium-term conversion credit limits aggregating Rs.493.47 crore were sanctioned to five SCBs in Madhya Pradesh, Maharashtra, Punjab, Rajasthan and Uttar Pradesh on account of damage to crops due to natural calamities like drought, etc.

70. The long-term loans sanctioned during the year to state governments for contribution to the share capital of co-operative credit institutions aggregated Rs.60.55 crore, covering 11 states.

71. National Bank disbursed investment refinance to commercial banks, SCARDBs, RRBs, SCBs and other eligible institutions to the tune of Rs.7,418.77 crore during the year, which was 11 per cent higher than the previous year. During the year, the SCARDBs' share in the total refinance declined to 38.5 per cent from 40.9 per cent in the previous year. The share of SCBs increased from 16.3 to 24.1 per cent and that of RRBs from 17.6 to 20.7 per cent. However,

the share of commercial banks further declined to 16.7 per cent during the year from 24.1 per cent during the previous year and 36 per cent during 2000-01 due mainly to their comfortable liquidity position.

72. Non-farm sector (including rural housing) claimed the highest share in the total refinance at 27.1 per cent followed by animal husbandry (14.7%), farm mechanisation (13.4%) and minor irrigation (11.5%). The refinance disbursed under SHG-bank linkage programme registered a growth of 57 per cent and claimed 8.4 per cent share in the total refinance disbursed. The cumulative disbursement of refinance reached Rs.169.18 crore in respect of construction/ extension/ modernization of cold storages under the Capital Investment Subsidy Scheme of the GoI.

73. During the year, 34 district oriented monitoring, 26 investment-specific and 14 scheme-specific studies were conducted. The National Bank completed 12 ex-post evaluation studies during the year covering sectors like minor irrigation, dairy development, plantation and horticulture (floriculture) and non-farm.

74. National Bank continued to implement, during the year, nine externally-aided projects and three projects are under consideration.

Initiatives in Rural Infrastructure Development

75. An amount of Rs.5,500 crore for RIDF VIII was allocated in the Union Budget 2002-03, bringing the total amount to Rs.28,500 crore in eight tranches. Sanction of loans of Rs.1,100 crore to the states from RIDF VIII was linked to reforms taken up/to be taken up in four areas, viz., irrigation, power for agricultural operations, agricultural marketing and tribal welfare. Besides, an amount of Rs.500 crore was earmarked for infrastructure projects to be implemented by PRIs/NGOs/SHGs and a sum of Rs.600 crore was allocated for encouraging investments in infrastructure projects in north eastern states.

76. During the year, 22,453 projects involving a loan amount of Rs.6,084.07 crore were sanctioned under RIDF. Of the total amount sanctioned, rural road and bridge projects accounted for 39 per cent, irrigation projects for 28 per cent while others for 33 per cent. An amount of Rs.535.02 crore was sanctioned for projects to be implemented by ground level institutions (PRIs/NGOs). With the disbursement of Rs.4,103.42 crore during the year, the cumulative disbursements under RIDF aggregated Rs.17,145.08 crore.

77. Deposits received from scheduled commercial banks under RIDF during the year aggregated Rs.3,857.09 crore, while repayments received were Rs.1,548.30 crore. The deposits outstanding as at the end of March 2003 were Rs.12,159.23 crore.

78. As at the end of March 2003, out of the 2,54,974 projects sanctioned so far, 1,63,970 projects were completed. Project implementation under RIDF was regularly monitored by the National Bank in-house as well as through external agencies engaged for the purpose. Considering the sizeable fund flow to rural roads and bridges, the Bank has laid emphasis on monitoring and evaluation of these investments. During the year 9,647 projects were monitored by field visits. Four evaluation studies were also conducted during the year. The progress of implementation was also reviewed on a quarterly basis by the High Power Committee constituted in each of the states under the chairmanship of the Chief Secretary/Finance Secretary/Agricultural Production Commissioner of the state.

Consultancy Services

79. NABARD Consultancy Services (Nabcons) Cell was set up in the Bank in July 2002. Nabcons leverages on the core competencies of the organization. During 2002-03, Nabcons provided consultancy services to various clients in areas of micro-financing, private infrastructure and investment projects, preparation of plans for integrated development of farms, business planning for organizations, integrated area development schemes for horticulture and

sericulture, technology and management of cold storages, commercial livestock, project appraisal for banks, working capital assessment, project evaluation, economic and commodity related research, marketing and value addition, organic farming, non-farm enterprises, etc. The clientele included International Agencies, Banks, Planning Commission, Ministries of GoI, State Governments and private entrepreneurs.

Management of Resources

80. The total financial resources mobilized by the National Bank, excluding borrowings from the RBI under the General Line of Credit (GLC), during 2002-03 increased by Rs.6,495 crore compared to Rs.6,383 crore during the previous year. The increase was mainly on account of enhanced market borrowings, increased deposits from commercial banks under RIDF and the operating surplus for the year.

81. The above funds have been deployed for supporting investment credit, disbursement of loans under RIDF as also liquidating some earlier borrowings.

82. During the year, the total income of the National Bank amounted to Rs.4,046 crore, as compared to Rs.3,672 crore in the previous year. Out of this, a sum of Rs.377 crore was earmarked towards the payment of income tax, Rs.570 crore contributed to Special Reserve and Rs.221 crore transferred to the NRC(LTO) Fund and NRC(Stabilisation) Fund each. Out of the balance income amounting to Rs.2,657 crore (Rs.2,302 crore in the previous year), after meeting the total expenditure of Rs.2,522 crore, the surplus amounted to Rs.152 crore including withdrawals of Rs.17 crore from funds against expenditure debited to P&L Account.

Human Resource Development and Organisational Matters

83. During the year, six meetings of the Board of Directors of National Bank were held. As on 31 March 2003, two vacancies under Section 6 (1)(b) and 6(1)(g) of the NABARD Act, 1981 existed on the Board of Directors. Five meetings of the Executive Committee were held during the reporting period. The Audit Committee of the Board met seven times. Sanctioning Committee for loans under RIDF met nine times during the period under review.

84. The Reserve Bank of India conducted the fifth round of financial inspection of the National Bank during September-December 2002 with reference to the financial position as on 31 March 2002.

85. Besides the corporate office at Mumbai, the Bank had 28 ROs, a sub-office at Port Blair, a cell at Srinagar and 330 DDM offices as on 31 March 2003. Eleven DDM offices were opened during 2002-03.

86. In tune with the changing environment and corporate thrust, the National Bank has been reorienting its Human Resource Development (HRD) strategies to address the emerging challenges and skill requirements. The year 2002-03 was designated as the ‘Year of Skill Development’ by the National Bank. The NABARD-SDC HID Project entered the third year of its implementation and witnessed considerable progress in capacity building of staff and by imparting new skills and ‘change management efforts’ through training and exposure visits.

87. During the year, 1,909 officers were imparted training at NBSC through 100 programmes in upgrading their functional, methodological and managerial skills. A number of new programmes in emerging areas were designed and conducted, viz., ‘Management of Change’, ‘Asset- Liability Management’, ‘Decision Making and Problem Solving’, ‘NPA Management’, etc., at NBSC. Seven studies including impact evaluation study of select programmes, were also completed by the NBSC.

88. During the year, five delegations, viz., (i) representatives from different units of Government of Ethiopia, (ii) officials from Government of Malaysia, (iii) officers from banks in Sri Lanka, (iv) officers from Development Bank of Ethiopia alongwith officials from various agencies in Ethiopia and (v) members from 15

countries sponsored by National Institute of Entrepreneurship and Small Business Development, New Delhi, visited the National Bank.

89. National Bank continued to lay considerable emphasis on preventive vigilance system in the organisation. Vigilance Awareness Week was observed by the Bank from October 31 to 6 November 2002 as advised by the Central Vigilance Commission, GoI. During the week, a pledge, as forwarded by the Commission, was administered to all the staff. A special training programme on 'Vigilance-Domestic Enquiry and Related Aspects' was conducted for 27 officers at NBSC, Lucknow in October 2002. Preventive Vigilance Inspection of 13 ROs/TEs was also conducted during the year.

90. National Bank continued to provide for reservations in favour of SCs/STs in vacancies filled by direct recruitment as also in vacancies filled by promotions in all grades to which the Bank has accepted to provide for reservations in consonance with the instructions from the GoI.

91. The Local Area Network (LAN) at the Bank's HO was made operational during 2002-03, which helped in sharing of resources among 600 computers. So far, LANs have been commissioned at five ROs of the National Bank, including one at Lucknow RO during the year. The Bank commissioned a software project for developing an on line financial accounting system to be run under LAN environment. To facilitate execution of this software, mini LANs have been set up at the remaining offices of the Bank. During the year, the Intranet application commissioned on a pilot basis at the HO was extended to a few ROs where regular LANs have been set up. The National Bank's website on the internet was updated on a regular basis.

92. During 2002-03, inspection of 20 ROs and 3 TEs was undertaken. The Zonal Audit Cell at Kolkata completed inspection in respect of 4 ROs in the NER. Inspection of six HO departments, were completed during the year. The prescribed quarterly reports covering the Bank's investment portfolio were regularly sent to the RBI. The Concurrent Audit work of 5 ROs (Ahmedabad, Bhubaneshwar, Hyderabad, Jaipur and Kolkata) and 3 departments of HO, which had been outsourced to M/s Haribhakti & Co., for a period of one year from 01 December 2001, was further extended for one more year.

93. The National Bank continued its efforts to promote the use of Hindi in its day-to-day working during the year.

The Years Ahead

94. Improving productivity and efficiency of the agriculture sector has become imperative in the wake of the Agreement on Agriculture (AoA) under the WTO. A number of steps are, therefore, needed to tone up the efficiency in inputs management, extension services, production system, post-harvest management and marketing of agri-products.

95. The projected credit flow to agriculture and allied activities at Rs.7,36,570 crore during the Tenth Five Year Plan (2002-07) period is more than three times the credit flow during the Ninth Plan period. Rural financial institutions would therefore have to focus on enhancing the flow of credit to the agriculture and rural sector.

96. National Bank's future policy in respect of minor irrigation will continue to strive to reduce the gap between potential created and utilized as also to avoid over exploitation of groundwater to protect the environment. Steps would also be initiated to intensify drip and sprinkler irrigation through public-private partnership. The National Bank would also be making promotional efforts for encouraging and supporting artificial recharge, rainwater harvesting and minmising surface run-off through 'watershed development approach'. Integrated and holistic development of rainfed areas has also to be promoted by conservation of rainwater on watershed basis and augmentation of biomass production through agro and farm forestry.

97. The Ministry of Food Processing Industries has envisaged a target of increasing food processing from the present level of 2 per cent to 10 per cent of value of agricultural production by 2010. The National Bank would continue its efforts in attaining this target. It would also initiate efforts for collaboration between the producer co-operatives and corporate sector to promote the agro-processing industry.

98. The extension mechanism in agriculture has to be strengthened in order to enhance sustainability. The National Bank would lay more emphasis on strengthening agri-clinics and agri-business centers. Its future focus would be on development of web-based applications for rural credit, setting-up of Information Kiosks and promotion of activities that will enable the rural areas to take advantage of Information Technology.

99. A well-designed institutional arrangement such as insurance has to be put in place to avoid risks within agriculture. The 'Agriculture Insurance Company of India Limited' has been set up with capital participation from GIC, four Public Sector General Insurance Companies and the National Bank, covering all farmers and crops to mitigate risks of crop failure. The National Bank would also be able to make meaningful participation for greater efficiency in risk management with the setting-up of the National Commodity and Derivatives Exchange (NCDEX) with equity participation in association with other national level institutions like, ICICI Bank, LIC and NSE.

100. As envisaged under the National Agriculture Policy (NAP), there will be a greater need to improve the productivity of livestock. The necessary forward and backward linkages like making available improved breeds or strains and processing facilities with quality certification under sanitary and phyto-sanitary measures must be developed with appropriate credit products from financial institutions. Adequate preventive measures and logistic support for cattle health followed by adequate feed and fodder resources have to be developed for enhancing animal yield.

101. National Bank would continue its efforts in strengthening rural infrastructure by further extending support to areas like, drinking water, system improvement in power sector, mini hydel projects, flood protection, soil conservation, forest development, construction of school buildings, health centers, etc. Infrastructure for export development, like cold storages, container freight stations, etc., is also receiving priority. Increasing the involvement of small and marginal farmers in agri-exports through local commodity based organizations, SHGs, etc., is being explored.

102. A tripartite Memorandum of Undersrtanding (MoU) has been recently signed between National Bank, APEDA and EXIM Bank for the purpose of synergising the efforts of these agencies and provide leverage to their respective strengths to co-ordinate their working with a view to further augmenting agri-exports. The setting-up of AEZs would increasingly attract commercial ventures through private sector participation. The new route of co-financing projects with higher outlay by the National Bank in association with commercial banks would also be a good supporting factor for promotion of AEZs. The National Bank would also continue to finance contract farming arrangements by banks in the Agri-Export Zones (AEZs) and provide required support to the bankers for creating an awareness about it.

103. National Bank is visualizing the linking of one million SHGs by 2007. This would call for evolving a vibrant Management Information System (MIS). A few pilot projects that aim at synergy between the traditional approaches of 'grain gola' or 'grain banks' and the SHG-bank linkage programme would be implemented during the next few years. The RNFS would be strengthened through larger credit delivery, expansion of the area development approach through programmes like DRIP and cluster development, technology upgradation, dissemination of information, etc.