

Highlights

Rural Economic Environment and Policy Issues

Global Economy

1. Despite a series of events which affected the economies of Asian, American and European countries, the global economy has strengthened and broadened as revealed by a rebound in global gross domestic product (GDP) and trade volumes by 1.6 and 3.7 percentage points, respectively, during the period 2002-04. Advanced economies showed a better growth in GDP (1.8 percentage points) than others during the same period.

Indian Economy

2. The performance of the Indian economy improved significantly during 2003-04, posting an estimated growth of 8.2 per cent in GDP as against 4 per cent during 2002-03. The GDP from agriculture and allied sectors grew at the rate of 9.1 per cent during 2003-04 as against a negative growth of 5.2 per cent during the previous year. The industry and services sectors also maintained the momentum with GDP growth from these sectors accelerating from 6.4 and 7.1 per cent, respectively, during 2002-03 to 6.5 and 8.0 per cent, respectively, during 2003-04.

3. During the South-West monsoon in 2003 the country received a total rainfall of 92.2 cm as compared to 67.3 cm in 2002, the rainfall being well balanced, having equitable distribution in terms of time and space without any prolonged breaks which accelerated the performance of the agriculture sector. The rainfall was normal/excess in 75 per cent of the districts and 92 per cent of Gross Cropped Area (GCA) in 2003, as against 44 per cent of the districts and 37 per cent of GCA in the country in 2002.

4. The normal/excess rainfall in most parts of the country with well-balanced distribution resulted in an increase in the

area under most of the crops. During 2003-04 the area covered under rice, wheat, coarse cereals, pulses and oilseeds increased by 12, 10, 11, 22 and 15 per cent, respectively, as compared to 2002-03. The foodgrain production also increased by 21 per cent touching a high of 210.8 million tonnes as against 174.2 million tonnes during the previous year, while the agricultural production is estimated to have increased by 19.3 per cent as against a decline of 15.6 per cent during the same period.

5. The share of agriculture and allied sectors in the total GDP declined from 24.3 per cent (2001-02) to 22.2 per cent (2003-04), while the share of the services sector has risen steadily from 54.6 to 56.1 per cent during the same period. The share of industry remained broadly the same between 21 and 22 per cent at 1993-94 prices.

6. The rate of gross domestic savings as a percentage to GDP at factor cost increased to 24.2 during 2002-03 compared to 23.5 during 2001-02. The rate of gross domestic capital formation improved marginally from 23.1 per cent during 2001-02 to 23.3 per cent during 2002-03.

7. So far, only 68 per cent of the country's irrigation potential has been harnessed out of the ultimate irrigation potential assessed at 139.9 million ha. The groundwater assessment completed in ten states categorised 774 blocks/taluks/watersheds/sub-units as dark/critical and over exploited. In such areas there is need to support water conservation activities through bank credit. In accordance with the National Agriculture Policy's mandate of doubling foodgrain production by the next decade, the minor irrigation (MI) sector has become a thrust area for NABARD in terms of introducing various developmental initiatives and financial incentives. Investments in MI structures are expected to create an additional irrigation potential of 12 million ha. during the Tenth Plan period (2002-07).

8. The total quantum of agricultural credit provided by co-operative banks, commercial banks and RRBs increased by 12 per cent and reached the level of Rs.69,560 crore during 2002-03. It is estimated that the ground level credit flow to agriculture and allied sectors would have reached Rs.80,000 crore during 2003-04, which is 15 per cent more than the previous year. The total credit flow to these sectors during the Tenth Plan period is projected at Rs.7,36,570 crore.

9. While private sector investments in agriculture increased from Rs.12,979 crore during 2000-01 to Rs.14,119 crore during 2002-03 (1993-94 prices), public sector investments too registered significant growth from Rs.3,927 crore to Rs.4,538 crore during the same period. The private sector investments in agriculture and allied sectors increased from Rs.14,605 crore during 1995-96 to Rs.26,569 crore during 2000-01 at current prices. The proportion of such capital formation financed by institutional credit increased from 59.6 to 81.1 per cent during the same period, reflecting the important role played by financial institutions in providing credit support to agriculture and allied sectors.

10. India accounts for the largest livestock population and it was also the largest producer of milk in the world with a total production at 86.4 million tonnes during 2002-03. During 2001-02 the livestock sector accounted for 5.4 per cent of the total GDP and 27.7 per cent of the GDP from agriculture at current prices. Export of milk and dairy products increased to US\$ 27.0 million during 2003-04 (April-January) from US \$ 26 million during the same period of the previous year.

11. Fisheries account for 1.1 per cent of the total GDP and 5.4 per cent of the GDP from agriculture sector and has been growing at a rate of 14 per cent, faster than the agriculture sector. Fish production reached a level of 6.2 million tonnes during 2002-03. The existing volume of fisheries exports forms only 7.6 per cent of total fish production as compared to the global average of 11 per cent.

12. During the year 2002-03 the small scale industry (SSI) sector registered a growth of 10.5, 7.3 and 20.7 per cent in terms of production, employment and exports, respectively, as compared to the previous year.

13. The value of agri-exports in total exports of the country decreased from 18.5 per cent during 1990-91 to 13.1 per cent during 2002-03, while that of agri-imports increased from 2.8 per cent to 5.8 per cent during the same period. The share of agricultural exports in the total exports had declined to 11.7 per cent during 2003-04 (April-February) from 12.9 per cent during the same period of 2002-03. Agricultural imports related to food and other items, which constituted 4.8 per cent of the total imports during 2003-04 (April-February), aggregated US \$ 3,282.2 million for the year.

14. With the objective of bringing about integrated development and strengthening the agriculture and allied sectors, state governments have undertaken various agricultural reform measures, especially those relating to agricultural marketing, irrigation and water supply, agro-processing, agri-infrastructure, etc.

Development Initiatives

Farm Sector

15. NABARD continued to focus on watershed development, integrated development of backward areas, supporting the setting-up of Agri-Export Zones (AEZs), Farmers' Service Centres (FSCs), agri-clinics, developing non-farm activities, improving the outreach of the rural credit delivery system through microFinance

initiatives, supporting research and development activities and training of rural banking personnel.

16. During the year 54 watershed projects involving a grant assistance of Rs.2.72 crore were sanctioned under the capacity building phase, raising the cumulative number of projects and grant assistance sanctioned to 274

and Rs.13.12 crore, respectively. So far, an amount of Rs.11.47 crore has been released to the implementing agencies. Also 37 projects have entered the full implementation phase. To emphasize the positive impact of participatory approach to watershed development, a national level workshop on 'Monitoring and Evaluation of Watershed Projects and Strategies for Post-Watershed Development' was organised in May 2003.

17. The pilot project for integrated development of backward blocks through convergence of various credit and development programmes/schemes was launched in 10 such blocks in five states. Concerted efforts are being made in these blocks to form SHGs, organize farmers' clubs, promote farm and non-farm activities, etc. The possibility of providing support for developing critical infrastructure under RIDF is also being explored.

18. During the year Rs.41.50 crore was disbursed under a scheme for financing purchase of land by small/marginal farmers to enable them to develop and cultivate agricultural/fallow/wastelands. The scheme for supporting the setting-up of agri-clinics and agri-business centres by agriculture/veterinary graduates aimed to supplement the existing extension network continued during the year. NABARD conducted a study to examine the arrangements available for extending financial support and problems faced in the implementation of the scheme. Based on the feedback the Bank has stepped up efforts to sensitise bankers towards extending credit support to agripreneurs.

19. In consonance with the action plan prepared by the 'National Mission on Bamboo Technology and Trade Development', NABARD has accorded special status to the bamboo sector and has constituted a 'Bamboo Cell' at its HO. The Bank has also prepared a perspective plan to finance the nursery network under centralised and decentralised mechanisms to support bamboo plantations with an area of 3 lakh ha. in potential states involving an investment outlay of Rs.1,000 crore during the Tenth Plan period.

20. NABARD continued to promote the cultivation of Medicinal and Aromatic Crops (MACs) through various measures and dialogues with corporate houses that resulted in cultivation of *Bixa* and *Patchouli* in the Wadi project areas in Gujarat under contract farming system. Preparation of state-wise directories of manufacturers and traders and formulation of 45 bankable model schemes of high demand species were the significant outcomes of these initiatives. The Bank also extended refinance facility to all its client institutions and for all activities under 48 notified AEZs covering 20 crops. A special refinance package was also developed by the Bank for contract farming arrangements.

21. In an effort to harness information and communication technology to empower and elevate the economic status of Indian farmers, 2,150 e-choupals were set up through ITC Ltd., covering 12,000 villages in four states. Grant assistance of Rs.9 lakh was sanctioned to ITC Ltd. to conduct a project with the objective of developing an IT-based practical handbook and diagnostic tools for production and protection of major crops.

22. The Bank's scheme for financing FSCs in collaboration with Mahindra Shubhlabh Services Limited (MSSL), a wholly-owned subsidiary of Mahindra and Mahindra Ltd., continued and three new FSCs were opened during the year, increasing the number of FSCs sponsored by MSSL to 44. This has resulted in tie-ups with banks for financing farmers to the tune of Rs.10 crore.

23. NABARD along with LIC, NSE, ICICI Bank, PNB and CRISIL floated the National Commodity and Derivatives Exchange Ltd (NCDEX) aiming to cover most of the commodities under the Open General License (OGL) category. As a stakeholder, NABARD would facilitate the integration of agriculture credit, securitisation of agricultural produce and futures markets and capacity building of state/district level marketing co-operatives.

24. A number of training-cum-orientation programmes were organised during the year to sensitise bank officials and other concerned agencies towards promoting the cultivation of MACs. Workshops/seminars were also organised for promoting organic farming and various aspects related to the animal husbandry sector.

Non-Farm Sector

25. NABARD in consultation with the GoI and the RBI formulated the Swarojgar Credit Card (SCC) scheme for the benefit of small borrowers to take care of their investment and working capital requirements and circulated the scheme among co-operative banks and RRBs. During the year an amount of Rs.64.26 crore was disbursed under this scheme through 28,925 cards.

26. The District Rural Industries Project (DRIP) was extended to 16 more districts this year, increasing the cumulative number to 75 covering 20 states. The emphasis under DRIP was on credit plus approach involving cluster development, credit delivery innovations, promotional programmes, etc., besides which supporting the creation of market infrastructure, conduct of REDPs and capacity building of partner institutions were also encouraged. Grant assistance of Rs.26.24 lakh was sanctioned during the year to PRIs/PACS for development of rural haats in DRIP districts. So far, 4.29 lakh units (March 2003) have been set-up, generating employment opportunities to 9.18 lakh persons in 43 districts.

27. Under the National Programme for Rural Industrialisation (NPRI), the Bank has launched promotional programmes of cluster development in 55 clusters involving grant assistance of Rs.1.55 crore so far for supporting various interventions. The programme is expected to benefit 16,000 artisans and small entrepreneurs. Also, 1,216 REDPs were supported by NABARD during the year covering 31,319 educated

unemployed rural youths, involving grant assistance of Rs.5.63 crore. Since inception of the programme in 1990, 1.51 lakh rural youths have been covered.

28. NABARD continued the programme of Mother Units to support sub-contracting by rural industrial/non-farm sector units. So far, Rs.3.33 crore was sanctioned and Rs.1.88 crore disbursed, covering 30 Mother Units for the setting-up of 3,400 enterprises and training of 7,087 rural youths. The intervention helped generate an additional employment for 8,500 persons per annum in rural areas.

29. The Bank continued its efforts to promote the handloom sector through its scheme 'Skill Upgradation and Design Development for Handloom Weavers' (SUDHA), which promotes the development of new designs to enhance the marketability of handloom products. Four programmes involving grant assistance of Rs.10.71 lakh were sanctioned during the year.

30. NABARD continued to support gender development programmes – 'ARWIND' and 'MAHIMA'. Grant assistance of Rs.2.99 crore and Rs.59.26 lakh covering 128 and 26 projects, respectively, have been sanctioned so far under these schemes which included four and seven projects involving grant support of Rs.3.77 lakh and Rs.11.70 lakh, respectively, during the year. The Bank sanctioned Rs.31.98 lakh to three RRBs under 'Development of Women Through Area (DEWTA) Programmes' for training, skill upgradation and capacity building of women. During the year NABARD extended grant support of Rs.17.70 lakh to co-operative banks and RRBs for setting-up of 'Women Development Cells' taking the cumulative disbursements to Rs.2.42 crore. NABARD Utsav at 'Dilli Haat', New Delhi, organized by the Bank, was one of the many initiatives taken to showcase and market the products of rural artisans and women entrepreneurs assisted under NABARD's various promotional schemes.

microFinance

31. The SHG-bank linkage programme continued to be a thrust area of NABARD during 2003-04. During the year 3,61,731 SHGs were credit linked to banks showing growth of 41 per cent over the previous year. Nearly 90 per cent of the SHGs formed under the programme are women SHGs. The year also witnessed the all-round growth of the programme in many states. NABARD continued its efforts in capacity building with added emphasis and also extended promotional grant support, etc., to its partner agencies to help them function as SHPIs. Under NABARD's capacity building programmes for its partner institutions, 2.44 lakh participants were trained during the year.

32. A grant assistance of Rs.662.44 lakh was sanctioned for formation of 60,513 SHGs to 28 co-operative banks, 23 RRBs, 221 NGOs and 60 IRVs during the year. Under the Bank's VVV programme, 119 farmers' clubs were provided grant assistance of Rs.2.43 lakh to enable them to promote SHGs. During the year the clubs promoted 1,229 groups and credit linked 409 SHGs.

33. NABARD provides Revolving Fund Assistance (RFA) to select NGOs for undertaking financial intermediation. During the year RFA of Rs.8.40 crore was sanctioned to two NGOs, raising the cumulative sanctions to Rs.27.32 crore to 32 agencies, of which Rs.15.20 crore has been released to 29 agencies.

34. Continuing with its efforts to innovate and sustain this programme, the Bank, during the year introduced six pilot projects, viz., 'Barefoot Book keepers' to establish a sound Management Information System (MIS) between SHGs and banks in association with rural volunteers, linking of SHGs to rural post offices in Tamil Nadu, training of skilled rural youths as Computer Munshis, setting-up of three grain banks in Kalahandi district of Orissa, use of information technology (IT) in the form of processor/memory cards (Smart Cards) for monitoring and servicing

a large number of SHG accounts and financing mid-segment clients through Joint Liability Groups.

35. Under the microFinance Development Fund (mFDF) set up in NABARD an amount of Rs.7.05 crore was utilised during the year towards up-scaling of SHG-bank linkage programme. The mFDF was also used for providing loans of Rs.3.22 crore in the form of the RFA to microFinance institutions. NABARD's collaboration with external agencies like SDC and GTZ for supporting and strengthening the programme continued during the year.

Research & Development Activities

36. During the year an amount of Rs.6.70 crore was disbursed from the R & D Fund as grant assistance which includes Rs.5.51 crore for training activities, Rs.0.27 crore for research projects/studies, Rs.0.92 crore for other activities like conduct of seminars, preparation of occasional papers, etc. During 2003-04 14 research projects/studies involving grant assistance of Rs.52.23 lakh were sanctioned and five projects/studies sanctioned earlier were completed. Also, the Bank decided to replenish the expenditure from the R & D Fund from its profits, so as to maintain an opening balance of Rs.50 crore in any given year.

37. Grant assistance of Rs.47.45 lakh was sanctioned during the year to various universities and research institutes for conducting 79 conferences, seminars and workshops. Four Occasional Papers were published and thirteen topics for preparation of such papers were also identified and entrusted to various experts during the year in order to generate and disseminate information on policy issues in the areas of agricultural credit and rural development.

Other Development Initiatives

38. During the year the Bank conducted 429 training programmes through its own training establishments for the benefit of 11,145 personnel of Primary Lending Institutions (PLIs) and Rural Financial Institutions (RFIs)

and supplemented the efforts of other training institutions in this area by providing technical and financial support. Grant assistance of Rs.23.21 lakh was provided to IIBM, Guwahati and MDMI, Shillong to enable them to cater to the training needs of financing institutions in the NER.

39. Eight new DDM offices were opened during the year taking the total number to 338. Also, 103 districts were tagged with neighbouring DDM offices. Those districts not covered by DDMs are attended to by the Bank's District Development Officers at respective ROs.

Business Operations

40. The Hon'ble Union Finance Minister on 03 February 2004 announced the creation of the Lok Nayak Jai Prakash Narayan Fund (LNJPNF) of Rs.50,000 crore to enhance efficiency, productivity and profitability of Indian agriculture through development of agriculture and rural infrastructure and the credit delivery mechanism. NABARD has been designated as the nodal agency for operationalising the Fund. Three major components of the Fund are financing for infrastructure through state governments; providing refinance support for investments in agriculture, commercial infrastructure and selective co-financing; and certain initiatives aimed at development and risk management.

Ground Level Credit

41. The total ground level credit (GLC) flow for agriculture and allied activities was estimated at Rs.80,000 crore during 2003-04, registering a 15 per cent growth over the previous year. Over the period (1998-99 to 2002-03) the GLC flow from co-operative banks, RRBs and commercial banks increased by 11, 25 and 20 per cent, respectively. The share of commercial banks increased from 50 to 57 per cent and that of co-operative banks declined from 43 to 34 per cent. Between 1998-99 and 2002-03, the disbursements for short-term production credit (crop loans), land development, hi-tech agriculture and plantation & horticulture increased substantially, while for other sectors, viz., minor irrigation and farm mechanisation it remained stagnant.

42. The Kisan Credit Card (KCC) scheme introduced in August 1998 has helped augment the short-term (ST)

crop loans for Seasonal Agricultural Operations. During the year co-operatives, RRBs and commercial banks issued 48.78 lakh, 12.74 lakh and 30.73 lakh cards, respectively. Of the total 413.79 lakh cards issued so far, co-operative banks accounted for the largest share of cards issued (59%) followed by commercial banks (32%) and RRBs (9%). Though the scheme has progressed very well in most states, special efforts were made in Bihar, Jammu & Kashmir, Jharkhand, Himachal Pradesh and the north eastern states to accelerate the pace of the scheme. Further, to ensure publicity of the scheme, 10 lakh Meghdoot Post Cards were issued in rural areas during the year.

Production Credit

43. The short-term (ST) credit limits sanctioned during 2003-04 (July-March) for SCBs and RRBs aggregated Rs.7,314.28 crore and Rs.1,346.62 crore and the maximum outstanding level reached was 73 and 69 per cent, respectively. A new line of credit for financing short-term agricultural/allied and marketing activities to co-operative banks was introduced for the year 2003-04 to provide liquidity to these banks and enable them to effectively leverage their high cost funds to boost credit flow. Credit limits aggregating Rs.484.09 crore were sanctioned to seven SCBs, which were utilised to the extent of Rs.195.48 crore. With the aim of reducing the interest rates on crop loans, NABARD in consultation with RBI formulated a scheme for providing refinance directly to DCCBs at 6 per cent p.a. The scheme is to be implemented in concurrence with the state governments.

44. The Bank continued to support RFIs through refinance for production/procurement and marketing activities of weavers' co-operatives and working capital requirements of handicraft and handloom corporations. During the year, ST limits aggregating Rs.520.60 crore were sanctioned to seven SCBs for financing production/procurement and marketing activities of Weavers' Co-operative Societies, the maximum outstanding reached against which was Rs.309.75 crore. The limits sanctioned to SCBs on behalf of apex/regional weavers' societies for trading in yarn amounted to Rs.11.86 crore. NABARD also opened a separate line of credit to RRBs for financing the marketing of crops. The aggregate sanction of credit limits for ST (OSAO) purposes to RRBs was Rs.86.02 crore.

45. Medium-term conversion credit limits aggregating Rs.288.02 crore (July-March) were sanctioned to seven SCBs during the year, on account of crop loss of 50 per cent or more due to natural calamities in unirrigated areas.

46. During 2003-04 long-term (LT) loans amounting to Rs.39.54 crore were sanctioned to six states for contribution to the share capital of co-operative credit institutions. The interest rate on refinance assistance, after two downward revisions, ranged between 5.25 and 6.50 per cent with effect from 13 February 2004.

47. Fifteen monitoring studies under the Credit Monitoring Arrangement were taken up during 2003-04 and based on the findings, co-operative banks were advised to improve the quality of appraisal of large advances and their monitoring mechanism. As a policy initiative, credit limits towards pre-seasonal expenses of sugar mills were curtailed by 33.33 per cent by the Maharashtra SCB/DCCBs during the year to bring down the level of exposure of these banks to the sugar sector. In accordance with Gol's announcement regarding the

creation of a buffer stock of 20 lakh tonnes of sugar, NABARD advised SCBs/DCCBs to sanction additional credit limits to sugar mills against the release of margin on existing stocks and also to ensure that the amount in lieu of the margin money was not used for any purpose other than the payment for sugarcane purchased by the sugar factories.

Investment Credit

48. During 2003-04 refinance disbursements for investment credit for commercial banks, SCBs, SCARDBs, RRBs and other eligible financial institutions aggregated Rs.7,605.29 crore. The marginal growth (3%) in refinance support was mainly due to adequate liquidity position of RRBs and commercial banks. This was compounded by poor credit purveying capacity of co-operative banks. The eligibility criteria for drawal of refinance from NABARD by the co-operative banks and RRBs under schematic lending was switched over to NPA linked norms instead of recovery norms. The share of SCARDBs in schematic lending declined to 33 per cent (38% during 2002-03) while that of commercial banks increased to 23 per cent (17% during 2002-03) during the year.

49. The flow of refinance varied widely across the states. Three states, viz., Uttar Pradesh (Rs.1,221.79 crore), Tamil Nadu (Rs.733.10 crore) and Punjab (Rs.676.18 crore) together accounted for 35 per cent of the refinance disbursed during the year. Non-farm sector (including rural housing) had the highest share (31%), animal husbandry, farm mechanisation and minor irrigation/land development (11% each), SHGs (9%) and others (27%). During the year the refinance disbursed for rural housing increased by 34 per cent and by 13 per cent for SHGs over the previous year. Under the Bank's initiatives for extending refinance support in AEZs, the refinance disbursed increased from Rs.45 crore during 2002-03 to Rs.343 crore during 2003-04.

50. During the year, 3,61,731 SHGs were credit-linked to banks with loans disbursed aggregating Rs.1,855.53 crore, as compared to Rs.1,022.34 crore disbursed during the previous year. NABARD's refinance aggregated Rs.705.44 crore during 2003-04 for supporting 1,17,409 SHGs.

51. In all, seven projects involving co-financing with 11 commercial banks were sanctioned during the year with a total outlay of Rs.118.90 crore, NABARD's share being Rs.35.97 crore.

52. During the year interest rates were revised four times and the present interest rates range between 5.50 and 6.75 per cent for various activities/regions.

53. During the year 31 district oriented monitoring studies, 27 investment-specific studies, 11 scheme-specific studies and 9 ex-post evaluation studies were conducted by the Bank.

54. In all, nine externally-aided projects were at various stages of implementation and five were under consideration. During the year an amount of Rs.40.96 crore was disbursed and Rs.32.41 crore received as grant assistance under these projects.

Rural Infrastructure Development

55. During the year Rural Infrastructure Development Fund received an allocation of Rs.5,500 crore towards RIDF IX, which raised the cumulative sanctioned amount to Rs.34,000 crore. Sixty per cent of the corpus was earmarked for flood protection, irrigation, agriculture and allied activities and power sector projects. The LNJPNF/AICF with a corpus of Rs.50,000 crore was set up in NABARD in February 2004 to efficiently aggregate resources from various providers of long-term finance in order to channelise resource flow from the market towards the creation of agriculture/rural infrastructure. An amount

of Rs.30,000 crore has been allocated towards sanction of loans to state governments for infrastructure development over a period of three years (2004-07).

56. During the year 20,178 projects involving a loan amount of Rs.5,437.51 crore were sanctioned under RIDF IX, of which rural roads and bridges accounted for 47 per cent, irrigation projects for 35 per cent and others for the rest. Loans aggregating Rs.43.20 crore were sanctioned by the Bank during the year for projects to be implemented by PRIs/NGOs. Deposits of Rs.2,158.69 crore under RIDF from commercial banks and repayments of Rs.2,980.41 crore from state governments were received. The cumulative disbursement under RIDF I to IX aggregated Rs.21,067.17 crore.

57. NABARD continued to monitor the projects being implemented under RIDF, both in-house and by engaging external agencies like ORG-MARG and AFC Ltd. During the year 8,285 projects were monitored through field visits. Tranche Completion Reports prepared to assess the benefits from projects sanctioned under RIDF II were received for 7,441 projects (91% of completed projects) from the state governments.

58. In order to facilitate and accelerate the flow of credit to the NER, a pilot scheme on routing credit to Village Development Boards/Village Development Councils was introduced in Nagaland during 2003-04 and an MoU was signed among NABARD, Government of Nagaland and SBI. Twenty-five VDBs were identified in Nagaland for implementation of the scheme with a corpus of Rs.25 lakh.

Consultancy Services

59. NABARD Consultancy Services (P) Ltd. (Nabcons) was registered with the Registrar of Companies on 17 November 2003 with an authorized share capital of Rs.25 crore, of which Rs.5 crore has been

fully subscribed by NABARD. So far, Nabcons has contracted 67 assignments involving consultancy fees of Rs.1,026.78 lakh, of which 32 assignments were completed during 2003-04. The Company's clientele includes various departments of the GoI, state governments, financial institutions, corporates, NGOs, international bodies like UNIDO, FAO and individuals. Established firms like RABO Bank and Ernst and Young, India have also expressed interest in collaborating with Nabcons.

Resource Management

60. The financial resources of NABARD increased by Rs.7,416 crore during 2003-04, owing mainly to operating surplus for the year (Rs.1,121.83 crore), Capital Gains Bonds (Rs.1,348.68 crore), Priority Sector Bonds (Rs.1,498

crore), Non-Priority Sector Bonds (Rs.1,750 crore), Tax Free Bonds (Rs.135.15 crore) and borrowings from banks and financial institutions (Rs.2,500 crore). The total working funds increased by 12 per cent to Rs.55,889 crore as on 31 March 2004 from Rs.50,071 crore as on 31 March 2003.

61. The above funds have been utilized for schematic lending, ST/MT/MT (Conversion) loan assistance, loans to state governments both under RIDF and non-project loans. The borrowings of NABARD as a percentage to total working funds registered a significant increase from 11.23 as on 31 March 1999 to 27.38 as on 31 March 2004.

62. The total income of the Bank during the year at Rs.4,267.67 crore was higher by 5.5 per cent as compared to the previous year.

Capacity Building of Client Institutions

Institutional Development

63. The functioning and performance of rural co-operative credit institutions, in general, continued to suffer from several weaknesses including poor recovery and accumulated losses. Consequently, these institutions found it difficult to compete with other credit purveying agencies in the emerging liberalized environment. In view of this, NABARD continued its efforts in strengthening rural credit institutions, particularly co-operatives and RRBs.

64. The loans issued by PACS, DCCBs, PCARDBs and RRBs increased by 20,16, 5 and 20 per cent, respectively, during 2002-03 over the previous year. At the aggregate level the profits of SCBs improved during 2002-03 as compared to the previous year, while that of DCCBs, SCARDBs and PCARDBs declined. The improvement in the profits of SCBs was on account of turnaround by Chhattisgarh, Madhya Pradesh and Mizoram SCBs and increase in profits of Maharashtra SCB. There were, however, wide variations across the states in the performance of co-operative credit institutions.

65. During 2002-03 SCBs and DCCBs as a group earned positive net margins of 0.04 and 2.34 per cent to working funds, respectively. The net margins earned by SCARDBs and PCARDBs continued to be negative at 1.54 and 1.80 per cent, respectively, during the same period. The negative net margins of LT structure were on account of poor recoveries, increased provisioning towards impaired assets and higher transaction costs.

66. As on 31 March 2003, 5 out of 30 SCBs, 102 out of 367 DCCBs, 43,511 out of 98,247 PACS, 10 out of 20 SCARDBs and 469 out of 768 PCARDBs incurred losses which amounted to Rs,7,734 crore. The high proportion of NPAs to total loans and advances outstanding of co-operative banks, which increased further in the case of SCBs and SCARDBs as on 31 March 2003 compared to the previous year, and low level of recovery continued to be the areas of concern. The co-operatives, however, have made adequate provisions for impaired assets.

67. The policy measures undertaken in respect of RRBs and revamping exercise with capital infusion had a salutary effect on their financial performance especially in relation to increase in profits, reduction in NPAs and improvement in recovery. Although the number of RRBs that had wiped off their accumulated losses and attained sustainable viability increased from 86 to 97 as at the end-March 2003, the performance of RRBs varied widely across the states. The recovery performance of RRBs at the aggregate level improved to 73.53 per cent as at the end-June 2003 from 70.59 per cent as at end-June 2001.

68. Based on the recommendations/observations of the Estimates Committee of Parliament of the Ministry of Finance and Company Affairs, GoI, RRBs have been advised to initiate suitable corrective/follow-up action for improving their recovery, loan business, Management Information System, internal checks and controls and staff training and to review the actions taken in this regard in their Board Meetings.

69. The exercise of preparing Institution specific Development Action Plans (DAPs) by co-operatives and entering into MoUs continued during the year. The process of 'Organisation Development Intervention' also continued and so far, 134 co-operative banks have been covered under the initial phase. This has been instrumental in bringing about perceptible paradigm shift and change in the mindset and attitude of staff as well as management towards business and other issues. Under the SDC supported ODI programme all the RRBs and 50 DCCBs/SCBs have been covered so far.

70. With the objective of supporting developmental initiatives of co-operative credit institutions, NABARD provides financial support through the CDF. An amount of Rs.4.38 crore was disbursed during the year taking the cumulative disbursement to Rs.50.87 crore. An amount of Rs.4.86 crore was sanctioned during the year from the CDF for supporting the training of co-operative banks' personnel, computerisation, establishment of Business Development

Cells and publicity of KCC scheme. The assistance was made available either by way of grants or soft loans or grant-cum-soft loans, depending upon the purpose. The support provided to PACS has had a positive impact on their deposit mobilization, increase in such accounts, etc.

71. Over two decades, the Vikas Volunteer Vahini programme of the Bank has spread to 495 districts, covering more than 30,000 villages through 10,015 clubs. Select farmers' clubs have been encouraged to participate in promoting SHGs. In all, 1,423 clubs have promoted 12,234 SHGs so far.

Supervision over Banks

72. During the year NABARD conducted statutory inspections of 298 banks (17 SCBs, 191 DCCBs and 90 RRBs) and inspection of 10 apex level institutions including SCARDBs. RRBs also showed steady improvement in respect of gross NPAs as a percentage to loans and advances outstanding which declined from 18.84 as on 31 March 2001 to 14.44 as on 31 March 2003. In addition, quick inspections of 98 banks (10 SCBs and 88 DCCBs) were also completed. The inspections revealed that some of the weaknesses that continued to plague the functioning of these banks/institutions were improper application/implementation of income recognition and asset classification norms, inadequate risk management strategies, deficient internal checks and controls systems, poor credit monitoring arrangements, etc.

73. The Board of Supervision (for SCBs, DCCBs and RRBs) (BoS), constituted to provide guidance and direction to the 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, particularly with respect to banks that have not been able to maintain minimum capital of Rs.1 lakh over a long period and the low CD Ratio of most of the RRBs. The BoS has also suggested examining additional disclosures to be made by

co-operative banks in their balance sheets for bringing in more transparency. The BoS recommended the introduction of a Common Accounting System for SCBs and DCCBs to bring about symmetry in their financial statements and transparency through additional disclosures.

74. The issues deliberated by BoS during the year, *inter alia*, included the review of insolvent co-operative banks, prescription of trigger points for taking supervisory and regulatory actions against certain co-operative banks, sponsor bank-wise review of RRBs performance, etc.

75. As on 31 March 2004, 7 SCBs and 143 DCCBs were not complying with the minimum share capital

requirement as prescribed under the relevant Act. The total erosion in the value of assets of these banks aggregated Rs.8,841.71 crore as on 31 March 2004. During the year four DCCBs ceased to function as banks as their applications for license to carry on banking business were rejected.

76. During the year the Manual on Internal Checks and Branch Control for co-operative banks was updated. With a view to bringing about Audit Rating Scales in consonance with the Supervisory Rating Norms, the scales were fine-tuned to ensure correct financial assessment of co-operative banks by the statutory auditors and supervisors.

Organisation and Management

77. During the year, seven meetings of the Board of Directors of NABARD were held, while the Executive Committee, the Sanctioning Committee for loans under RIDF and the Audit Committee met six, seven and five times, respectively.

78. Shri Y. C. Nanda, Chairman demitted office on 30 June 2003. Smt. Ranjana Kumar was appointed as Chairperson and Shri Y. S. P. Thorat as Managing Director with effect from 21 November 2003 and 17 March 2004, respectively. S/Shri S. S. Acharya, R. Balakrishnan and Amaresh Kumar, Chief General Managers took charge as Executive Directors on 1 June, 1 August and 1 October 2003, respectively.

79. The Reserve Bank of India conducted the sixth round of financial inspection of NABARD during October-December 2003 with reference to the financial position as on 31 March 2003.

Training and Skill Enhancement

80. During the year 88 training programmes covering 1,637 officers were conducted at NBSC, Lucknow on functional, behavioural and technical subjects.

Programmes on Agri-business and Agro-processing, Rural Housing, Computer-based Project Appraisal and Risk Analysis were also introduced. Besides, 653 officers were deputed for 216 tailor-made and off-the-shelf training programmes, exposure visits, workshops, etc., in areas like Commodity and Derivatives Exchange, Ecological Perspectives in Watershed Development, etc. In addition, 76 training programmes covering 1,348 employees in Group 'B' and 'C' were held at NBTC, Lucknow and ZTC, Hyderabad.

81. During the year 114 officers of the Bank and 15 officials from partner institutions were deputed for various overseas training programmes, exposure visits, seminars, etc. A team of 21 officers attended a programme on bank supervision at the South African Reserve Bank to equip themselves with the latest developments relating to regulation, supervision and risk management. Similarly, 12 officers were deputed to visit Bank Rakyat Indonesia (BRI) to familiarize themselves with various credit innovations and resource mobilization practices followed by the BRI in dispensation of rural credit. The Chairperson, NABARD and nine officials from NABARD, NGOs and other banks participated in the

Asia-Pacific Regional Micro Credit Summit at Dhaka in February 2004.

82. During the year, two delegations, viz., a team of 13 participants from nine countries attending an international programme on Banking and Development at the NIBM, Pune and a high level delegation from Development Research Centre of State Council of China visited NABARD. The Parliamentary Committee on Official Language visited/inspected Gujarat RO and also visited HO.

Recruitment/Promotion

83. The Bank has tried to attract the best talent in various fields and areas of its interest through improved strategies in recruitment, career development and performance management to enable the organization to fulfil its mission. A total of 121 persons were recruited in the officers' cadre and 55 were promoted from the clerical to the officer grade. Of the 121 persons recruited, 74 have specialization in various disciplines. NABARD continued to provide for reservations in favour of SCs/STs both in direct recruitments and promotions in all the grades to which the Bank has accepted to provide for reservation in consonance with the instructions from the GoI.

Other Matters

84. Preventive Vigilance Inspection of 15 ROs / TEs was undertaken during the year. To sensitise

employees a Vigilance Awareness Week was observed by the Bank in November 2003.

85. Industrial relations in the Bank continued to be cordial. As per the Supreme Court directives, a Central Complaints Committee in HO and 19 Regional Complaint Committees (RCCs) were set up at Regional Offices for prevention of sexual harassment of women.

86. A Corporate Relations Cell was set up in February 2004 to collaborate with Public Sector Enterprises in order to improve and fine-tune their activities with major emphasis on watershed development, SHG promotion, promotion of micro enterprises, etc.

87. During 2003-04 inspection of 14 ROs and three ROs in the NER was undertaken by HO and the Zonal Audit Cell, Kolkata, respectively. Inspection of 15 HO departments was also completed during the year. The prescribed quarterly reports covering the Bank's investment portfolio transactions were regularly sent to the RBI.

88. The Bank continued its efforts for promotion of Hindi in its day-to-day working. NABARD's in-house Hindi journal 'Srijana' bagged six prizes awarded by various organisations. The Bank's web site was also designed in Hindi.