

## Highlights

### Rural Economic Environment and Policy Issues

The recovery process of the global economy that began during 2002-03 continued during 2004-05 despite a slight decrease in its momentum. This can be attributed to the consistent high prices of oil and resulting inflationary pressure that affected both the world and the Indian economies during the year.

#### Indian Economy

2. The performance of the Indian economy slowed down during 2004-05, with an estimated GDP growth of 6.9 per cent as against 8.5 per cent during 2003-04, on account of significant decline in growth of GDP from agriculture sector to 1.1 per cent. This was due to delayed and erratic monsoon in 2004. The growth of services sector declined marginally from 8.9 per cent during 2003-04 to 8.6 per cent during 2004-05, while the industry sector maintained the momentum with GDP growth accelerating from 6.5 to 8.3 per cent during the same period.
3. The country received a total rainfall of 78.1 cm during the South-West monsoon in 2004 (13% less than normal rainfall) compared to 92.2 cm in 2003. As 43 per cent of the districts and 38 per cent of the gross cropped area received deficient rainfall in 2004, there was decline in the area sown under most of the crops. The foodgrains production also declined to 210.4 million tonnes from 213.4 million tonnes during the previous year, mainly on account of shortfall in production of cereals (rice, bajra, maize) and pulses.
4. The share of agriculture and allied activities in total GDP (at 1993-94 prices) declined from 21.7 per cent (2003-04) to 20.5 per cent (2004-05), while that of services and industry sectors increased from 56.7 and 21.6 per cent to 57.6 and 21.9 per cent, respectively. As a percentage to GDP at factor cost, the gross domestic savings improved from 26.1 during 2002-03 to 28.1 during 2003-04 and investments from 24.8 to 26.3 per cent during the same period, mainly due to improvement in private sector investments.
5. The agricultural credit provided by co-operative banks, commercial banks and RRBs increased by 25 per cent and reached Rs.86,981 crore during 2003-04, compared to Rs.69,560 crore during 2002-03. It is estimated that the ground level credit flow to agriculture and allied activities would have reached Rs.1,15,242.81 crore during 2004-05, which is 32.5 per cent more than that in the previous year as also more than the targeted growth of 30 per cent for 2004-05.
6. There has been an increase in both the outreach and flow of credit to the agriculture sector over the years, as also the share of agricultural credit in agriculture GDP from 10.3 per cent during 1993-94 to 16.7 per cent during 2002-03. However, some problems continued to affect the flow of credit to the agriculture sector. The C-D ratio of rural bank branches declined from 49 per cent (1995) to 43.7 per cent (2004). The proportion of medium/long term loans in direct finance to agriculture and allied activities has also declined over the period. Similarly, there have been wide disparities in the flow of credit across regions. With a view to examining the nature and magnitude of the problem and evolve a strategy for increasing investment in agriculture, Ministry of Finance, GoI, in November 2004 and RBI in January 2005, set up an 'Expert Group on Credit-Deposit Ratio' and an 'Expert Group on Investment Credit to Agriculture', respectively, both under the Chairmanship of Shri Y.S.P. Thorat, Managing Director, NABARD.
7. The gross capital formation (GCF) in agriculture (at 1993-94 prices) fluctuated between Rs.14,895 crore and Rs.20,510 crore during the period 1994-95 to 2003-04. While the ratio of GCF in agriculture to GDP from agriculture sector improved from 5.2 per cent (1994-95) to 5.8 per cent (2003-04), the investments in agriculture to total GDP declined from 1.6 to 1.3 per cent during the same period.

8. The terms of trade in agriculture improved from 88.7 during 1981-82 (triennium ending) to 105.6 during 1991-92. However, it fluctuated between 100.9 (2000-01) and 105.6 (1997-98), and was at 102.5 during 2003-04. Improvement in terms of trade in the eighties was on account of higher prices realised for certain crops like cotton, groundnut, coarse cereals, pulses, meat and its products, etc., and increase of lower order in the prices paid by the agriculture sector for items of final consumption.

9. India maintained its position as the largest producer of milk with production reaching 91 million tonnes during 2004-05. The value of output from the livestock sector accounted for 5.4 per cent of total GDP during 2002-03. Milk and eggs production increased at an annual growth rate of 3.3 and 6 per cent, respectively, during the period 1997-2005. Fishery sector accounted for 1.1 per cent of the total GDP and 5.4 per cent of

GDP from agriculture sector during 2003-04. Fish production reached a level of 6.4 million tonnes during 2003-04, and earnings from fishery export accounted for 24 per cent of the exports from agriculture sector.

10. During 2003-04, the small scale industry (SSI) sector registered a growth of 11.5 and 4.4 per cent in terms of value of production and employment generation, respectively. The GoI initiated various measures during the year to encourage the development of SSI sector.

11. The share of agri-exports in total exports of the country decreased from 11.8 per cent during 2003-04 to 10 per cent during 2004-05. However, the growth rate of agri-exports increased from 8.5 to 9.1 per cent during the same period. The share of food and its related products in total imports declined from 4.5 per cent during 2003-04 to 3.2 per cent during 2004-05.

## Development Initiatives

12. NABARD continued to focus on watershed development, integrated development of backward areas, supporting the setting-up of agri-clinics and agri-business centres, promotion of Agri-Export Zones (AEZs), cultivation of medicinal crops, contract farming, developing non-farm activities, improving the outreach of the rural credit delivery system through Micro-Finance initiatives, supporting research and development activities and training of rural banking personnel.

### Farm Sector

13. During the year, 78 watershed projects involving a grant assistance of Rs.3.91 crore were sanctioned under the capacity building phase, raising the cumulative number of projects and grant assistance sanctioned to 352 and Rs.17.03 crore, respectively. An amount of Rs.7.33 crore was disbursed under the programme during the year. So far, an amount of Rs.18.80 crore has been released to the implementing agencies including loans to state governments. Also 64 projects have entered the full implementation phase during the year taking the total to 101. Further, the Planning Commission has entrusted NABARD with the responsibility of implementing a project

on participatory watershed development in eight districts of south Bihar for development of 80,000 ha. in association with NGOs, SHGs, watershed committees, etc.

14. The review of the pilot project for integrated development (PPID) of backward blocks launched in 10 such blocks in five states in July 2003, revealed that PPID as a concept and development model for backward blocks has made a mark at the grassroot level and has attracted the attention of policy planners. Progress in respect of poverty alleviation initiatives, entrepreneurship development and employment generation, watershed development, replication of wadi (small orchard) programme, infrastructure development, etc., has been achieved in these blocks. In view of the good performance of PPID, as an effective tool to accelerate the development process, it is being extended to 40 more blocks covering five more states.

15. In an effort to harness information and communication technology to empower and elevate the economic status of Indian farmers, 5,200 e-Choupals, managed by leading farmers in the village called 'Sanchalakas', have been set-up by ITC Ltd., covering

20,000 villages in six states. NABARD has supported a project 'Diagnostics for e-Choupals' by ITC Ltd. in Madhya Pradesh and sanctioned grant assistance of Rs.9 lakh. The project aims at developing an IT-based practical handbook and diagnostic tools for production and protection of major crops. NABARD has also provided Revolving Fund Assistance (RFA) to 20 identified 'Sanchalaks' of e-Choupals to enable them to stock inputs for soyabean crop in coordination with ITC-IBD to create a demonstrative effect to convince bankers that financing of 'Sanchalaks' is a bankable proposition.

16. With a view to promoting agri-exports, NABARD extended refinance facilities at soft interest rates to all client institutions and for all activities covered under AEZs. In order to give a fillip to the implementation of the programme, NABARD has taken initiatives, such as preparation of banking plans, bringing out publications for the benefit of stakeholders, and financial interventions like developing loan products, etc. This has resulted in refinance disbursement of Rs.437 crore under AEZs during 2004-05 (Rs.343 crore during 2003-04).

17. 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. To streamline operational and policy issues, the Bank has constituted a 'Bamboo Cell' at its HO and prepared a document highlighting interventions to be undertaken in the areas of policy and promotion, financial assistance, capacity building and networking coordination.

18. A National Consultative Meet on Medicinal, Aromatic and Herbal crops was organised by the Bank involving 160 stakeholders in an effort to promote cultivation of such crops. Programmes were organised to sensitise banks, NGOs and farmers about cultivation of Medicinal and Aromatic Crops (MACs), and unit cost/scale of finance for such crops was fixed. To ensure a stable market and remunerative prices for MACs grown by farmers, NABARD also initiated dialogues with various corporate houses during the year.

19. To deliberate on the critical issues confronting the farming community and develop an action plan, NABARD

organised Farmers' Meets facilitated by experts from NGOs in selected districts of seven states during the year. The issues which emerged from such meets were further deliberated at a National Consultative Meet by all stakeholders. State Chief Ministers, CMDs of banks and private corporate houses were requested to take suitable initiatives on the action points that emerged during the meet to mitigate hardship caused to farmers.

20. With increasing involvement of the private sector in agriculture, NABARD invited select corporate houses to explore the possibilities of collaborating with them in specific programmes like agri-clinics and agri-business centres, contract farming, farmers' clubs, etc., and to involve them in the implementation of such programmes for the benefit of farmers.

21. To strengthen such initiatives and as part of its efforts to collaborate with Public Sector Enterprises to implement their Corporate Social Responsibility programmes, the Corporate Relations Cell (CRC), NABARD entered into negotiations with BHEL, Coal India Ltd. and Kudremukh Ore Ltd. Efforts are also underway for synergising the Kisan Credit Card and agri-clinics and agri-business centre schemes with HPCL's Hamara (our) Pump scheme. Further, a proposal under Providing Urban Amenities in Rural Areas (PURA) model, was formalised for implementation in two states.

22. NABARD has become a partner and is participating in the management and equity of major national level commodity exchanges, so as to further strengthen the marketing infrastructure in the country. Accordingly, NABARD has contributed Rs.4.50 crore and Rs.1.25 crore to the equity of National Commodities and Derivatives Exchange (NCDEX) and Multi Commodity Exchange (MCX), respectively.

23. NABARD has devised a special scheme, 'Capacity building for Adoption of Technology' (CAT) to sensitise, preferably small and marginal farmers and tribals, to enable them to adopt proven technologies for agriculture developed by research institutes, corporate houses, NGOs, progressive farmers/entrepreneurs, etc. During the year, exposure programmes for 1,188 farmers were conducted on tissue culture, vermiculture, organic farming, poly

house technology, commercial dairy, etc., in collaboration with research institutes, KVKs, NGOs and Agriculture Universities.

24. With a view to replicating the 'wadi' approach adopted under Adivasi Development Programme in Gujarat and Maharashtra and spreading the message of 'wadi' through various agencies in other tribal dominated areas of the country, NABARD has created a Tribal Development Fund (TDF) with an initial contribution of Rs.50 crore. The projects under TDF would be implemented through NGOs. Financial support would be provided out of TDF to enable tribal families to establish wadi and other sustainable micro-enterprises.

25. Ministry of Rural Development (MoRD), GoI, has sanctioned two projects for setting-up of 100 Cattle Development Centres (CDCs), each in Bihar and Uttar Pradesh, to be implemented through BAIF, Pune with financial support of Rs.26.52 crore for a period of five years. NABARD has been designated as 'facilitator' of the project for providing guidance, channelising funds and monitoring. During the year, 73 and 93 CDCs in Bihar and Uttar Pradesh, respectively, have started functioning.

26. NABARD has developed a special refinance package for contract farming arrangements (within and outside AEZs) aimed at promoting increased production of commercial crops and creation of marketing avenues for the farmers. During 2004-05, refinance of Rs.774 crore was disbursed for contract farming.

27. In order to extend financial support for promoting various innovative initiatives being taken up in the field of agriculture and related areas by NGOs, KVKs, research institutes, Agriculture Universities, individuals, etc., NABARD created a Farm Innovation and Promotion Fund with an initial corpus of Rs.5 crore. The Fund envisages supporting initiatives to bring about innovations in farm technology, develop new concepts in agriculture and prototypes, undertake market survey for potential assessment of new activities, acquire/obtain patents for innovative technology, disseminate information relating to new products, etc.

## Non-Farm Sector

28. Under the Rural Promotion Corpus Fund (RPCF), which aims at promoting investments in the rural non-farm sector (RNFS), an amount of Rs.9.99 crore was disbursed to NGOs/promotional agencies during the year, taking the cumulative disbursement of grant assistance to Rs.61.58 crore.

29. The District Rural Industries Project (DRIP) being implemented in 80 districts covering 20 states is now being reinvigorated in those districts to maximise benefits and necessary thrust is being bestowed by facilitating various promotional interventions. So far, 6.53 lakh units (March 2004) have been set-up, generating employment opportunities to 13.60 lakh persons and the aggregate ground level credit flow has reached Rs.6,049.92 crore in 63 districts. As a part of DRIP strategy, it has been decided to adopt one Gram Panchayat from each DRIP district for intensive development by implementing all existing promotional interventions and to focus on marketing related activities.

30. Under the National Programme for Rural Industrialisation (NPRI), the Bank has launched promotional programmes of cluster development in 56 clusters. During the year, grant assistance of Rs.16.33 lakh was released to NGOs/nodal agencies for supporting various interventions in these clusters. Also, 666 REDPs were supported by NABARD during the year, covering 13,382 educated unemployed rural youths, involving grant assistance of Rs.4.36 crore. Since inception of the programme in 1990, 6,247 REDPs involving grant support of Rs.27.02 crore have been conducted covering 1.70 lakh rural youths enabling 56,758 persons to establish enterprises in rural areas. NABARD, on a pilot basis, sanctioned grant assistance of Rs.4.80 lakh during the year to Assam Regimental Centre, Shillong for conducting four REDPs so as to enable ex-servicemen take up a second career after retirement.

31. The Bank continued its efforts to promote the handloom sector through its scheme 'Skill Upgradation and Design Development for Handloom Weavers' (SUDHA), by assisting members of Primary Weavers' Co-operative Societies, NGOs, etc. So far, grant assistance of Rs.10.71 lakh has been sanctioned under the scheme.

32. NABARD continued to support gender development programmes through its various schemes like Assistance to Rural Women in Non-Farm Development (ARWIND), Marketing of Non-Farm Products of Rural Women (MAHIMA) and Development of Women Through Area (DEWTA). Grant assistance of Rs.3.03 lakh and Rs.2.93 lakh has been sanctioned under ARWIND and MAHIMA schemes, for five and six projects respectively, during the year. NABARD sanctioned Rs.31.98 lakh to three RRBs under DEWTA for training, skill upgradation and capacity building of 3,271 women over a period of three years. During the year, NABARD extended grant support of Rs.17.90 lakh to co-operative banks and RRBs for setting-up of Women Development Cells (WDCs).

### Micro-Finance

33. The SHG-bank linkage programme has started making inroads into resource poor regions of the country as well. During the year, 5,39,385 SHGs were credit linked to banks thus achieving growth of 49 per cent over the previous year. The active participation of women (90%) and timely repayment (95%) continued to be the prominent features of the programme. The year also witnessed the all-round growth of the programme in many states. The programme through linking of 16.18 lakh SHGs enabled an estimated 242.5 lakh poor households in the country gain access to Micro-Finance from the formal banking system as on 31 March 2005.

34. Under NABARD's capacity building programmes for its partner institutions, 2.57 lakh participants were trained and field visits to SHGs for 8,204 bank officials were arranged during the year. Bank also extended support for arranging and conducting 2,481 awareness creation and capacity building programmes for 2.08 lakh SHG members in association with identified resource NGOs. A grant assistance of Rs.597.48 lakh was sanctioned to promote 43,359 SHGs to 26 co-operative banks, 12 RRBs, 317 NGOs and 10 IRVs during the year, taking the cumulative sanction to Rs.2,534.34 crore for promotion of 2.11 lakh groups as on 31 March 2005.

35. NABARD provides RFA to select NGOs for undertaking financial intermediation. RFA is now extended to Micro-Finance Institutions (MFIs) for on

lending to either SHGs or smaller groups or individuals. So far, RFA of Rs.27.32 crore has been sanctioned to 32 agencies and Rs.17.80 crore has been released.

36. Continuing with its efforts to innovate and sustain this programme, the Bank, during the year introduced a few more pilot projects, viz., Micro-Enterprise Promotion by SHGs, Project on 'e-Grama', financing Joint Liability Groups and Rythu Mithra Groups, etc., apart from continuation of earlier pilot projects, viz., 'Involvement of Rural Volunteers as Book Writers' to establish a sound Management Information System (MIS) between SHGs and banks, training of skilled rural youths as Computer Munshis, setting-up of grain banks in Kalahandi district of Orissa (project extended in Chhattisgarh) and use of information technology (IT) in the form of processor cards for monitoring and servicing a large number of SHG accounts.

37. NABARD's emphasis on scaling-up the SHG-bank linkage programme in 13 priority states that account for 70 per cent of the country's rural poor has resulted in two and a half fold increase in the number of SHGs credit linked during the period 2003-05. A significant increase was witnessed in the economically backward states like Assam, Bihar and Orissa. As a result, the share of states other than the southern states increased from 28 per cent as on 31 March 2002 to 41 per cent as on 31 March 2005.

38. A consultation meet with 35 NGOs drawn from across the country was organised to further strengthen and deepen the partnership with NABARD and also assess the possibilities of leveraging the support of well established NGOs to function in new geographical areas and in developmental arenas like micro-enterprises, community participation in watershed development, entrepreneurship and skill development of primary clients, technology transfer to agrarian communities, etc.

39. The United Nations has designated the Year 2005 as the '*International Year of Micro-Credit*'. It has invited Governments, Non-Governmental Institutions and the private sector to help capacity building in MF and enhance awareness on the subject. In India, the event was launched on 18 November 2004 at the Bombay Stock Exchange, Mumbai and was supported by NABARD, Citigroup and Planet Finance.

40. An amount of Rs.6.39 crore from Micro-Finance Development Fund (MFDF) was utilised during the year towards up-scaling of SHG-bank linkage programme. Gol has decided to redesignate the existing MFDF as Micro-Finance Development and Equity Fund (MFDEF) and enhance the corpus to Rs.200 crore. NABARD's collaboration with external agencies like SDC and GTZ for supporting and strengthening the programme continued during the year. A sum of Rs.41.51 lakh was utilised for MF innovations from Credit and Financial Services Fund (CFSF).

### Research & Development Activities

41. During the year, an amount of Rs.578 lakh was disbursed from the R & D Fund as grant assistance for training activities (Rs.510 lakh), research projects/studies (Rs.31 lakh) and other activities like conduct of seminars, preparation of occasional papers, etc., (Rs.37 lakh). Five research projects/studies involving grant assistance of Rs.37.94 lakh were sanctioned and seven projects/studies sanctioned earlier were completed during the year.

42. Grant assistance of Rs.28.33 lakh was sanctioned during the year to various universities and research

institutes for conducting 59 conferences, seminars and workshops and seven Occasional Papers were published in order to generate and disseminate information on policy issues in the areas of agricultural credit and rural development.

### Other Development Initiatives

43. During the year, NABARD conducted 450 training programmes through its own training establishments which benefited 11,813 personnel of Primary Lending Institutions (PLIs) and Rural Financial Institutions (RFIs) and also supplemented the efforts of other training institutions in this area by providing technical and financial support. Grant assistance of Rs.20.15 lakh was provided to IIBM, Guwahati and MDMI, Shillong to enable them to cater to the training needs of financial institutions in the NER. NABARD also continued its contribution towards subsidising the participation fees of personnel of client institutions. Financial support of Rs.394 lakh was extended for conducting 1,293 programmes covering 23,647 participants out of CDF to JLTCs and ACSTIs during the year.

## Business Operations

44. NABARD through its refinance support continued to supplement the resources of co-operative banks, commercial banks and RRBs for enhancing credit flow to the agriculture and rural sector. During the year, the Bank was also entrusted with the responsibility of overseeing the implementation and monitoring of Gol's programme of doubling the flow of credit to agriculture over a period of three years effective from 2004-05. The total financial support extended by NABARD in the form of loans and grants during 2003-04 and 2004-05 was Rs.21,935 crore and Rs.27,102 crore, respectively.

### Agricultural Credit

45. The total ground level credit (GLC) flow for agriculture and allied activities was estimated at Rs.86,981 crore during 2003-04, registering a 25 per cent growth over the previous year. The disbursement of short-term production credit (crop loans) increased

at an annual compound growth rate of 17 per cent, while that of investment credit (term loans) increased at 15 per cent during the period 1999-2000 to 2003-04. Under investment credit some of the sectors like land development, hi-tech agriculture, fisheries, and plantation and horticulture witnessed growth, while for other sectors, viz., minor irrigation and farm mechanisation, credit flow remained stagnant. During the same period, the GLC flow from co-operative banks, RRBs and commercial banks increased by 9.5, 23.4 and 20.4 per cent p.a., respectively. The share of commercial banks increased from 53 to 60 per cent, that of RRBs increased marginally (7 to 9%), while that of co-operative banks declined from 40 to 31 per cent.

46. To ensure availability of adequate credit to farmers, Gol announced in June 2004 a credit package envisaging 30 per cent growth in credit flow to agriculture during 2004-05 and doubling it over a period of 3 years. To

ensure smooth implementation of the programme, NABARD initiated various measures, viz., consultation meets with chief executives of financing banks, advising steps to be initiated by SLBC, banks and state governments, preparation of model bankable projects for dissemination among the banks, etc.

47. The progress in the implementation of the credit package reveals that the total disbursement has reached Rs.1,15,242.81 crore during 2004-05, achieving a growth of 32.5 per cent over the previous year. Commercial banks, co-operative banks and RRBs have disbursed Rs.72,886.26 crore, Rs.30,638.38 crore and Rs.11,718.17 crore, thus achieving 128, 79 and 138 per cent, respectively, of the targets set for them. By end-March 2005, 79 lakh new farmers were brought under the institutional fold and 777 agri-clinics were financed. Banks provided debt relief to the extent of Rs.8,807.48 crore and Rs.2,146.13 crore to farmers in distress and in arrears, respectively, and Rs.756.83 crore to small and marginal farmers under OTS scheme. Commercial banks extended loans of Rs.57 crore to 16,758 farmers indebted to informal sources to enable them to redeem their past debts.

48. The Kisan Credit Card (KCC) scheme introduced in August 1998 has helped to augment the flow of short-term (ST) crop loans for Seasonal Agricultural Operations. During the year, co-operatives bank, RRBs and commercial banks issued 35.56 lakh, 17.29 lakh and 43.96 lakh cards, respectively. Of the total 510.80 lakh cards issued so far, co-operative banks accounted for the largest share (54%), followed by commercial banks (35%) and RRBs (11%).

49. A study by National Council of Applied Economic Research, New Delhi revealed that implementation of the scheme resulted in an increase in the flow of credit to the agriculture sector, a substantial reduction in borrowing from the informal sector for ST credit needs, a significant saving in time spent on availing ST agricultural loans and an overall reduction in cost of credit delivery. The scheme had a positive impact on cost of borrowings with a reduction in interest cost in both the formal and informal sectors. Certain areas

related to the restrictions imposed on issuance of KCCs by some banks, sanction of lower credit limits and low awareness level regarding the provision of the personal accident insurance scheme (PAIS), etc., need to be further fine-tuned.

50. Studies conducted by NABARD also revealed positive features like simplification of documentation procedure for drawal of funds leading to reduction in workload of bank branches, reduction in transaction costs, better recoveries, coverage of defaulter borrowers under the scheme, flexibility in operations for farmers, lesser dependence on money lenders, etc. However, fixation of lower limits, inadequate scale of finance, treating KCC as a term loan facility rather than as a cash credit facility, charging higher premia from borrowers under PAIS, etc., were some of the areas of concern as observed during the studies.

### **Production Credit**

51. The ST credit limits sanctioned during 2004-05 (July-March) for SCBs and RRBs aggregated Rs.8,217.03 crore and Rs.1,968.04 crore, an increase of 12 and 46 per cent, respectively, over the same period of the previous year. The maximum outstanding level reached was 87 and 71 per cent, in the case of SCBs and RRBs, respectively. A new line of credit for financing ST agriculture/allied and marketing activities to co-operative banks introduced during 2003-04, to provide liquidity to these banks and enable them to effectively leverage their high cost funds to boost credit flow, continued during the year. Credit limits aggregating Rs.375.82 crore were sanctioned to four SCBs, which were utilised to the extent of Rs.180.55 crore.

52. During the year, ST credit limits aggregating Rs.349.89 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.163.14 crore. A credit limit of Rs.13.28 crore was sanctioned to SCBs for financing industrial co-operatives and individual rural artisans. The aggregate sanction of credit limits for ST (OSAO) purposes to RRBs was Rs.216.83 crore.

53. In order to enable co-operative banks and RRBs to tide over liquidity gap, NABARD extended liquidity support scheme to SCBs (on behalf of DCCBs) and RRBs for a fixed period of 36 and 18 months, at an interest rate of 5 and 6.5 per cent, respectively. Sanctions to SCBs and RRBs during 2004-05 amounted to Rs.1,914.24 crore and Rs.158.78 crore, against which an amount of Rs.790.03 crore and Rs.18.08 crore was disbursed, respectively, during the year.

54. During 2004-05, long-term loans aggregating Rs.32.98 crore were sanctioned to six state governments for contribution to the share capital of co-operative credit institutions. Thirty-six monitoring studies under the Credit Monitoring Arrangement were taken up during 2004-05, with a view to examining various aspects relating to high value advances made by co-operatives.

### Investment Credit

55. With a view to supporting commercial banks and RRBs in provision of relief to persons affected by tsunami in the coastal districts of Andhra Pradesh, Kerala, Tamil Nadu and Union Territories of Andaman & Nicobar Islands and Pondicherry, NABARD has allowed: (i) corresponding reschedulement in respect of existing term loans rescheduled by banks, already covered under refinance, (ii) refinance against fresh loans provided by banks in cases of total/partial loss of assets, (iii) refinance support for higher quantum of loans to members of SHGs which had suffered loss due to the calamity, (iv) refinance support against loans granted for construction of new houses as well as repairs/reconstruction and (v) refinance against loans granted under the 'Rajiv Gandhi Rehabilitation Package for Tsunami Areas'.

56. In order to enable SCBs, SCARDBs, RRBs and commercial banks to reduce their cost of funds for financing agricultural term loans, a scheme for prepayment of high cost refinance availed by these banks earlier and availing equivalent amount of refinance was introduced by NABARD during 2004-05. SCARDBs, weak RRBs and SCBs were given the option to reset the interest rate at 8 per cent p.a. on entire amount of refinance outstanding to NABARD subject to compliance with certain specific parameters. So far, 20 commercial banks,

158 RRBs, 18 SCBs and 3 SCARDBs prepaid refinance to the tune of Rs.3,693 crore and 3 SCARDBs, 1 SCB and 3 RRBs opted for resetting of interest rate.

57. During 2004-05, refinance disbursement of investment credit for commercial banks, SCBs, SCARDBs, RRBs and other eligible financial institutions aggregated Rs.8,577.46 crore as against Rs.7,605.29 crore during the previous year, showing an increase of 13 per cent. The share of SCARDBs and SCBs in refinance for schematic lending declined to 32 per cent (38% during 2002-03), and 14 per cent (24% during 2002-03), respectively, reflecting declining absorptive capacity of these banks, while that of commercial banks increased to 30 per cent (17% during 2002-03) during the year.

58. The flow of refinance varied widely across the states and regions. Three states, viz., Uttar Pradesh (Rs.1,473.57 crore), Punjab (Rs.1,041.82 crore) and Andhra Pradesh (Rs.894.93 crore) together accounted for 40 per cent, while southern and northern regions together accounted for 52 per cent of the refinance disbursed during the year. Non-farm sector (including rural housing) had the highest share (30%), followed by animal husbandry (13%), farm mechanisation (12%) and minor irrigation/land development and SHGs (11% each). During the year, the refinance disbursed for SGSY increased by 111 per cent and for SHGs by 37 per cent over the previous year.

59. The Swarozgar Credit Card scheme was introduced by NABARD in 2003 to take care of investment and working capital requirements of small borrowers. By end-March 2005, 161 RRBs, 35 commercial banks and 71 co-operative banks had introduced the scheme and issued 1.79 lakh cards involving credit limits of Rs.532.53 crore.

60. The average size of loan to SHGs increased by 49 per cent from Rs.28,560 (31 March 2003) to Rs.42,620 (31 March 2005), exhibiting a process of credit deepening and improved access to credit. Bank loans disbursed to SHGs during the year aggregated Rs.2,994.26 crore as compared to Rs.1,855.53 crore disbursed during the previous year. NABARD provided refinance aggregating Rs.967.76 crore during 2004-05 for supporting 2,13,845 SHGs.

61. Three projects involving total financial outlay of Rs.26.50 crore and loan component of Rs.19.13 crore for co-financing with commercial banks were sanctioned during the year, NABARD's share being Rs.9.57 crore. There are six on-going projects relating to organic farming, bio-fuel production, milk processing, embryo transfer technology, etc.

62. During the year, 3,218 units were financed involving bank loan of Rs.59.60 crore and refinance of Rs.49.98 crore under a scheme for financing purchase of land by small/marginal farmers to enable them to develop and cultivate agricultural/fallow/wastelands. During the year, 782 agri-clinics and agri-business centres were established and bank loan of Rs.2,399.57 lakh disbursed. So far, 1,656 agripreneurs out of 7,145 trained agriculture/veterinary graduates have set up such units in different parts of the country. Maximum number of units have been established in Andhra Pradesh, Bihar, Gujarat, Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh.

63. During the year, interest rates on refinance were revised and the present interest rates range from 6 to 6.75 per cent, depending on the loan size, activity and region.

64. NABARD conducted 40 investment-specific and 17 scheme-specific studies during the year. Some of the positive features observed include, group financing by banks for tractors and fish farming in community ponds, as also improved cropping intensity and income per unit of area under the homestead farming schemes. The Bank also initiated commodity specific studies on grapes, potato and cotton to examine their supply chain, production and marketing aspects. Apart from these, eight ex-post evaluation studies covering various investments/activities, viz., land development, dairy, cold storage units, SHGs, participatory irrigation management institutions, rural road and bridge projects were also conducted.

65. In all, eight externally aided projects were at various stages of implementation. During the year, an amount of Rs.24.35 crore was disbursed and Rs.35.14 crore received as grant assistance under these projects.

## Rural Infrastructure Development

66. During the year, 60,015 projects involving a loan amount of Rs.8,282.75 crore were sanctioned under RIDF X, taking the cumulative number of projects to 2,16,099 and amount sanctioned to Rs.42,948.51 crore as on 31 March 2005. Rural road and bridge projects accounted for 45 per cent of the total amount sanctioned, irrigation projects for 34 per cent, social and power sector projects 12 per cent and others for the rest. Loans aggregating Rs.54.28 crore were sanctioned to the Block Panchayats during the year for rural road and bridge projects to be implemented by them in Kerala. Deposits of Rs.4,353.47 crore were received from commercial banks during the year, taking cumulative amount to Rs.22,657.53 crore by March 2005. Repayments of Rs.7,807.29 crore from state governments were received during the year. The cumulative disbursement under RIDF I to X aggregated Rs.25,384.02 crore.

67. NABARD continued to monitor the projects being implemented under RIDF, both in-house and by engaging reputed consulting agencies like L&T Ramboll Consulting Engineering Ltd., Tata Consultancy Services, Consulting Engineering Services (India) Pvt. Ltd., etc. During the year 8,791 projects were monitored through field visits. The studies have proved beneficial in taking early follow-up action with the concerned departments and state governments for improving the pace and quality of execution of projects.

68. NABARD continued its policy of facilitating larger flow of credit to NER and Sikkim by granting relaxations to co-operative banks and RRBs operating in these areas in respect of eligibility criteria for refinance, rate of interest on refinance, etc. In order to facilitate and accelerate the flow of credit to NER, a pilot scheme on routing credit to Village Development Boards/Village Development Councils (VDBs/VDCs) introduced in Nagaland during 2003-04 continued and an MoU was signed among NABARD, Government of Nagaland and SBI. Twenty-five VDBs have been identified in Nagaland for implementation of the scheme with a corpus of Rs.25 lakh and financing of VDBs has commenced by some of the bank branches.

## NABARD Consultancy Services

69. NABARD Consultancy Services (P) Ltd. (Nabcons), a subsidiary of NABARD was set-up in November 2003, for providing consultancy in the sphere of agriculture, rural development and allied areas. In order to have experienced professionals, the Board of Nabcons has been restructured during the year to include bankers, academicians and corporate executives.

70. During the year, 85 assignments involving consultancy fees of Rs.1,221.95 lakh were contracted. So far, Nabcons has contracted 168 assignments involving consultancy fees of Rs.1,518.02 lakh, of which 110 were completed involving fees of Rs.295.58 lakh. The Company's clientele includes various departments of the Gol, state governments, financial institutions, corporate houses, NGOs, international bodies, etc. Nabcons also organised 8 international visitors programmes for clients from various countries.

## Management of Resources

71. The financial resources of NABARD increased by Rs.8,077 crore during 2004-05 as against an increase of Rs.7,416 crore during the previous year. The

resources were augmented by Capital Gains Bonds (Rs.3,425.98 crore), Priority Sector Bonds (Rs.3,241.50 crore), Non-Priority Sector Bonds (Rs.2,175 crore) and borrowings from banks (Rs.1,800 crore). The total working funds increased by 11 per cent to Rs.60,779 crore as on 31 March 2005 from Rs.55,889 crore as on 31 March 2004.

72. The funds raised have been utilised for schematic lending, ST/MT/MT (Conversion) loan assistance and 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 13.17 as on 31 March 2001 to 36.63 as on 31 March 2005.

73. The total income of the Bank during the year was at Rs.3,938.74 crore as against Rs.4,267.27 crore during the previous year. After making provision for Income Tax (Rs.299.20 crore), contribution to Special Reserve (Rs.575 crore), transferring to NRC (LTO) Fund (Rs.81 crore) and NRC (Stabilisation) Fund (Rs.10 crore), the surplus left over of Rs.449.56 crore (after meeting expenditure of Rs.2,606.13 crore) was transferred to various funds maintained by the Bank.

## Capacity Building of Client Institutions

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

## Institutional Development

75. The loans issued by PACS increased by 10 per cent during 2002-03, while that by PCARDBs remained almost stagnant and those issued by SCBs and DCCBs declined by 14 and 2 per cent, respectively, during 2003-04 over the previous year. At the aggregate level SCBs earned profits of Rs.372.77 crore. The profit of profit earning SCBs declined by 21 per cent during 2003-04, as

compared to the previous year. The DCCBs earned profit of Rs.100.56 crore at aggregate level during 2003-04, as compared to loss of Rs.211.30 crore during the previous year. The losses of SCARDBs and PCARDBs increased further to Rs.113.50 crore and Rs.337.20 crore, respectively, at aggregate level during 2003-04. There were wide variations across the states in the performance of co-operative credit institutions.

76. During 2003-04, SCBs and DCCBs as a group earned positive net margin of 0.67 and 2.61 per cent, respectively. Out of 19 reporting SCARDBs, 11 had positive net margin and remaining had negative net margin, while PCARDBs in 8 states had negative and in 4 states positive net margins during 2003-04. The negative net margins of LT structure were on account of poor recoveries, increased provisioning towards impaired assets and higher transaction costs.

77. As on 31 March 2004, 4 out of 30 SCBs, 102 out of 365 DCCBs, 53,626 out of 1,12,309 PACS, 9 out of 20 SCARDBs and 439 out of 715 PCARDBs incurred losses, which together amounted to Rs.8,746 crore (excluding PACS). The high proportion of NPAs to total loans and advances outstanding of co-operative banks, increased further particularly in the case of DCCBs, SCARDBs and PCARDBs as on 31 March 2004 compared to the previous year, and low level of recovery continued to be the areas of concern. The co-operative banks, particularly DCCBs and SCBs, however, have made adequate provisions for impaired assets.

78. In view of persisting weaknesses in the co-operative credit structure, preparation of institution specific Development Action Plans (DAPs) by co-operative banks and entering into MoUs continued during the year. PACS have been brought into the DAP/ MoU process and were advised to prepare action plan for attaining viability and enter into an MoU with respective DCCB. During the year, 22 SCBs, 12 SCARDBs, 337 DCCBs and 704 PCARDBs executed MoUs. The impact assessment study of DAPs/ MoUs has revealed that the exercise had brought about professional approach and awareness about profitability at the management level. During the period 1994-95 to 2002-03, business in terms of deposit mobilisation, loans issued and outstanding increased at an annual growth rate of 12 to 17 per cent at DCCB and 7.5 to 14 per cent at SCB level. The process of conducting 'Organisation Development Intervention' (ODI) programmes also continued and so far, 361 and 115 such programmes have been conducted for RRBs and SCBs/DCCBs, respectively, under the SDC supported ODI programme.

79. With the objective of supporting developmental initiatives of co-operative credit institutions, NABARD provides financial support through the CDF. During the year, an amount of Rs.3.14 crore was sanctioned and Rs.4.15 crore was disbursed taking the cumulative sanctions and disbursements under CDF to Rs.65.33 crore and Rs.55.38 crore, respectively, as on 31 March 2005 for supporting the training of co-operative banks' personnel, computerisation, establishment of Business Development Cells and publicity of KCC scheme and other loan products. The support provided to PACS has

had a positive impact on their deposit mobilisation, improved MIS and availability of trained manpower in co-operative banks contributing to overall efficiency of the structure.

80. Considering the problems being faced by the co-operative credit institutions, GoI constituted a Task Force on Revival of Rural Co-operative Credit Institutions in August 2004 under the Chairmanship of Prof. A. Vaidyanathan, MIDS, Chennai to formulate a practical and implementable action plan and also get a fair assessment of financial requirement to rejuvenate the rural co-operative credit structure. The Task Force submitted its report to GoI in February 2005 and made major recommendations relating to institutional regulatory and legal reforms. It estimated financial requirements for revitalisation of co-operatives at Rs.14,839 crore and suggested an implementation mechanism. The GoI has also constituted Task Force on Revival of Long-Term Co-operative Credit Institutions.

81. 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 97 to 106 as at end-March 2004, the performance of RRBs varied widely across the states. The recovery performance as on 30 June 2004 was above 85 per cent in four states, viz., Haryana, Kerala, Punjab and Tamil Nadu while it was poor mostly in states of NER and Jharkhand. The recovery performance of RRBs at the aggregate level improved to 77.67 per cent as at end-June 2004 from 73.49 per cent as at end-June 2003.

82. Over two decades, the Vikas Volunteer Vahini programme (renamed as Farmers' Club Programme) of the Bank has spread to 505 districts, covering more than 31,108 villages through 13,664 farmers' clubs including 3,649 clubs launched during 2004-05. The role of the Farmers' Clubs has been enlarged to cover technology transfer at the field level for higher productivity, on-farm value addition by adopting effective post-harvest

technology and participation in marketing of products. Grant assistance of Rs.18.04 lakh was extended to Farmers Training Centre set up by Punjab National Bank in Haryana to conduct training programmes for the benefit of farmers.

### Supervision over Banks

83. During the year, statutory inspections of 326 banks (12 SCBs, 181 DCCBs and 133 RRBs), voluntary inspections of 11 SCARDBs and 4 apex level institutions and quick inspections of 94 banks (11 SCBs, 1 SCARDB and 82 DCCBs) were conducted. 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 provisioning for impaired assets/credit, inadequate risk management strategies, deficiencies in sanction and disbursement of loans and inadequate supervision over end-use of credit, deficient internal checks and control systems, poor credit monitoring arrangements, etc.

84. The Board of Supervision (for SCBs, DCCBs and RRBs) [BoS], met four times during the year and

reviewed the findings of inspection and monitoring reports. The BoS expressed concern over deterioration in the financial position of many co-operative banks, particularly those not complying with the provision of Section 11(1) of B.R. Act, 1949 (AACs), as also absence of penal provision against the banks not adhering to RBI's guidelines for asset classification and provisioning.

85. The issues deliberated by BoS during the year, *inter alia*, included the review of off-site surveillance system (OSS), prescription of trigger points for taking supervisory and regulatory actions against certain co-operative banks, sponsor bank-wise review of the performance of RRBs, etc. A set of 'trigger points' based on certain quantifiable parameters for initiating Supervisory and Regulatory actions against SCBs and DCCBs were conveyed to these banks.

86. As on 31 March 2005, 6 SCBs and 136 DCCBs were not complying with the minimum share capital requirement as prescribed under the relevant Act. As on 31 March 2005, the total erosion in the value of assets of these non-compliant co-operative banks aggregated Rs.10,305.62 crore which had not only eroded their entire owned funds but also affected deposits to the extent of Rs.3,647.41 crore.

## Organisation and Management

87. NABARD continued its efforts for capacity building of its employees and introduced new/refined existing training programmes, so as to enable them to keep abreast to the constantly changing socio-economic and technical environment.

88. 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 five, eight and four times, respectively.

89. The Reserve Bank of India conducted the seventh financial inspection of NABARD from 8 November 2004 to 22 January 2005 with reference to the financial position as on 31 March 2004.

### Training and Skill Enhancement

90. During the year, 97 training programmes covering 1,952 officers were conducted at NBSC, Lucknow on functional, behavioural and technical areas. Programmes on Medicinal and Aromatic Plants, Participatory Approach to Rural Credit and Management, Marketing Skills and Monitoring of Watershed Projects were also introduced. Besides, 1,004 officers were deputed for tailor-made and off-the-shelf programmes, exposure visits, workshops, etc., in areas like Indian Debt Markets, Investment and Treasury Management, Risk Based Supervision, Water Resource Development, Advance Technologies in Horticulture, etc. Faculty members from Training Establishments and few officers of the Bank were deputed for training programmes, *viz.*, Direct

Training Skills, Design of Training and Evaluation of Training at the instance of GoI at various state level training institutes. In all 2,956 officers of the Bank were deputed for various training programmes, workshops, etc. In addition, 77 training programmes covering 1,216 employees in Group 'B' and 'C' were held at NBTC, Lucknow and ZTC, Hyderabad.

91. DEAR and TSD regularly organise various programmes both in-house and in collaboration with external agencies, to provide exposure to their officers to the latest developments in banking and agriculture sectors, dissemination of knowledge for implementing various schemes and providing strategic inputs.

92. During the year, DEAR conducted two exposure programmes for the newly recruited officers with economics background at NBSC, Lucknow, aimed at strengthening their analytical skills and for senior officers at the Institute of Economic Growth, Delhi with the objective of providing an overview of current macro-economic environment, impact of WTO on Indian agriculture, improving MIS and evolving strategies for improving the performance of the agriculture sector.

93. Five regional workshops focusing on development of the thrust areas identified in the respective regions as also a Mango Meet to promote mango exports were conducted by TSD. Further, to keep the Bank's officers abreast of the latest technological advancements in their areas, Business Development Meets in its four disciplines, i.e., Animal Husbandry, Land Development, Agricultural Engineering and Fisheries and two capacity building workshops for junior officers of Minor Irrigation and

Plantation and Horticulture disciplines were organised during the year.

## Recruitment and Promotions

94. During the year, seven persons were recruited in the officers' cadre and 82 employees were promoted from the clerical to the officer grade. NABARD continued to provide for reservations for SCs/STs, both in direct recruitments and promotions, in all the cadres to which the Bank has accepted to provide for reservation in consonance with the instructions from GoI.

## Other Matters

95. Preventive Vigilance Inspection of 15 ROs / TEs was undertaken during the year. To sensitise employees, two specially designed training programmes were organised for the officers and a Vigilance Awareness Week was observed by the Bank in November 2004. Inspections of 17 ROs and 2 TEs were undertaken by HO during the year.

96. As per the Supreme Court directives, a Central Complaints Committee in HO and 21 Regional Complaint Committees in ROs have been functioning for prevention of sexual harassment of women at the work place.

97. The Bank continued its efforts for promotion of Hindi in its day-to-day working. Forty-eight staff members were imparted training under the Hindi teaching scheme of GoI and 1,074 staff members were imparted training to work on computers in Hindi. NABARD's in-house Hindi journal 'Srujana' bagged three prizes awarded by various organisations.