

Highlights

Rural Economic Environment

The Indian economy, which has improved its performance over the last several years, is estimated to grow at 8.4 per cent during 2005-06 over the previous year on account of sustained growth in the industry and the services sectors and good performance of the agriculture sector.

Indian Economy

2. The performance of the Indian economy improved during 2005-06 with an estimated growth of 8.4 per cent as against 7.5 per cent (at 1999-2000 prices) in the GDP during 2004-05. The real GDP originating from agriculture and allied activities is estimated to have registered a growth of 3.9 per cent, reviving from a low of 0.7 per cent in the previous year on account of the normal South-West monsoon. The industry and services sectors showed marginal increase in their growth from 8.6 and 9.9 per cent during 2004-05 to 8.7 and 10.0 per cent during 2005-06, respectively.

3. The share of agriculture and allied activities in total GDP (at 1999-2000 prices) declined from 24.4 (2001-02) to 19.9 per cent (2005-06), of services sector increased from 50.3 to 54.0 per cent, while that of industry sector from 25.3 to 26.1 per cent. As a percentage to GDP at factor cost, the gross domestic savings improved from 26.5 during 2002-03 to 29.1 during 2004-05 and investments from 25.3 to 30.1 during the same period. Inflation, measured in terms of Wholesale Price Index, stood at 4.0 per cent as at end-March 2006 as compared to 5.1 per cent as at end-March 2005.

4. The country received a total rainfall of 87.3 cm. (78.1 cm. in 2004) during the South-West monsoon in 2005, which was marginally below the normal rainfall of 88.4 cm. Out of 36 meteorological sub-divisions, 32 received excess/normal rainfall covering 92 per cent of

the country's gross cropped area. The progress of the North-East monsoon was also satisfactory. This has helped to increase the area sown under most of the crops. During 2005-06, the production of foodgrains is estimated to increase to 210.0 million tonnes (by 5.9%) from 198.3 million tonnes during the previous year. Production of non-foodgrains crops, viz., oilseeds is estimated to increase by 9.9 per cent, while that of cotton and sugarcane by 15.2 per cent each during 2005-06, over the previous year.

5. The agricultural credit provided by co-operative banks, commercial banks and RRBs increased by 44 per cent and reached Rs.1,25,309 crore during 2004-05, compared to Rs. 86,981 crore during 2003-04 owing to various initiatives taken by NABARD in the implementation of the package for doubling of agricultural credit over a three year period (2004-07). The ground level credit flow to agriculture and allied activities reached Rs.1,57,480 crore during 2005-06, which is 26 per cent more than that of the previous year. Various measures have been announced in the Union Budget for 2006-07 to further improve credit flow to the sector.

6. The gross capital formation (GCF) in agriculture fluctuated between Rs.38,176 crore and Rs.47,833 crore during the period 1999 - 2000 to 2004 - 05. The ratio of GCF in agriculture to GDP from agriculture sector fluctuated between 8.4 and 10.2. It declined from 9.6 (1999-2000) to 8.7 (2004-05). Investments in agriculture to total GDP declined from 2.2 to 1.7 per cent during the same period. This decline is attributed to stagnation or fall in public investment in irrigation since the mid-nineties. However, there is some indication of a reversal of this trend, as during 2003-04 public sector investment in agriculture reached its highest level at Rs.12,809 crore since the early nineties.

7. India maintained its position as the largest producer of milk with production reaching 91 million tonnes during 2004-05. Milk and egg production increased at an annual growth rate of 3.3 and 6 per cent, respectively, during the period 1997-2005. Fisheries sector accounted for 1 per cent of the total GDP and 4.7 per cent of GDP from agriculture sector during 2004-05. Fish production reached a level of 6.3 million tonnes during 2004-05.

8. During 2004-05, the small-scale industry (SSI) sector registered a growth of 16.9 and 4.3 per cent in terms of value of production and employment generation,

respectively. GoI initiated various measures during the year to encourage the development of the SSI sector.

9. Agricultural exports grew at 27.4 per cent during 2005-06 as compared to 6.2 per cent during 2004-05. The share of agri-exports in total exports of the country decreased from 13.5 per cent during 2001-02 to 9.9 per cent during 2005-06. Agricultural imports grew at 2.8 per cent during 2004-05. During 2005-06 agricultural imports of food and related items was at US \$3,712 million. The share of vegetable oils in total agricultural imports declined from 63.4 during 2004-05 to 62.1 per cent during 2005-06, whereas the share of pulses has increased from 10.1 to 16.8 per cent during the same period.

Development Initiatives

10. NABARD continued to focus on watershed development, integrated development of backward areas, promotion of 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

11. During the year, 74 watershed projects were sanctioned taking the cumulative number to 427 watersheds in 124 districts of 14 States, involving financial commitment (loan and grant) of Rs.255 crore. These 427 projects are expected to cover a total area of 4.04 lakh ha. An amount of Rs.10.60 crore including loan of Rs.3.04 crore to State Governments was disbursed under the programme during the year. In all, 140 projects have entered the full implementation phase. NGOs were also made eligible for Revolving Fund Assistance (RFA) for undertaking post watershed development activities. During the year, RFA of Rs.10 lakh was sanctioned to Development Support Centre, Ahmedabad.

12. The pilot project for integrated development (PPID) of backward blocks launched in 10 such blocks in five States in July 2003 was extended to 40 more blocks (25 blocks in 5 new States and 15 blocks in 5 States already covered under the programme), thus taking the total to 50 blocks. The programme has emerged as an effective model for accelerating the development process in backward areas. During the year, workshops were organised for sensitisation of DDMS and nodal officers from ROs to the PPID. An Action Plan for the next three years has been prepared for each of these blocks.

13. To support development of bamboo cultivation, NABARD prepared a policy document highlighting requisite information in areas of policy and promotion, capacity building, financial assessment and State specific strategy and action plan. With a view to designing a strategy for implementing the programme, a National Consultative Meet involving 200 stakeholders was organised by NABARD in May 2005. Regional Offices of NABARD in Bihar, Himachal Pradesh, Karnataka, Kerala and Orissa have taken initiatives to assess district-wise potentials and credit needs as also developing State-specific policy for this sector.

14. Promotion of cultivation of medicinal, aromatic and herbal crops continued to receive focussed attention of NABARD. Accordingly, regular monitoring of schemes being implemented by National and State Medicinal Plant Boards and financing of such crops therein was undertaken. During the period 2002-05, 24,650 ha. of additional area was covered under such crops through the credit-linked subsidy scheme of National Medicinal Plant Board. Subsidy of Rs.55.22 crore has been sanctioned for 2,024 schemes in 25 States and 26 such crops have come under the purview of cultivation, of which 16 are being commercially cultivated for the first time. During the year, Regional Offices of NABARD assessed the district-wise potentials and credit requirements for a variety of crops based on the unit costs/scales of finance fixed. During 2004-05, the sector received Rs.99.74 crore and Rs.200 crore under investment and production credit, respectively, while a target of Rs.350 crore for 2005-06 is expected to be achieved.

15. The National Horticulture Mission was launched by GoI in April 2005 for a period of seven years with the aim of increasing horticulture production from 147 million tonnes to 300 million tonnes by 2011-12. Being a stakeholder in the implementation of the programme, NABARD initiated sensitisation of its officers as also the preparation of area/crop specific banking plans to enhance flow of institutional credit to this sector. NABARD also submitted to the Mission, a proposal for developing 600 ha. of land as orchards, based on the 'wadi' approach, involving 1,500 tribal families and financial assistance of Rs.5.45 crore.

16. To facilitate the adoption of new/upgraded technology by farmers/entrepreneurs, NABARD through its special scheme, 'Capacity building for Adoption of Technology' (CAT) undertakes sensitisation of farmers to enable them to adopt proven technologies for agriculture developed by various organisations, progressive farmers/entrepreneurs, etc. The entire cost towards such visits/programmes is supported by NABARD from the Rural Innovation Fund. During the

year, exposure programmes for 1,591 farmers on vermi-culture, organic farming, poly house technology, cultivation of medicinal and aromatic crops, etc., were conducted in collaboration with research institutes, KVKs and Agriculture Universities. The concept of visual motivation through exposure visits to innovative projects was appreciated by most of the farmers.

17. Owing to successful implementation of the 'wadi' programme in tribal areas of Gujarat and Maharashtra and spreading the message of wadi in other tribal dominated areas of the country, NABARD created a Tribal Development Fund (TDF) with an initial corpus of Rs.50 crore. To ensure effective implementation and sensitise NGOs to this approach, BAIF Research Foundation, Pune has been identified as a resource organisation to provide capacity building support. During 2005-06, nine capacity building programmes were organised for 228 participants and grant assistance of Rs.35.01 crore was sanctioned for implementing 11 such projects aiming to benefit 10,000 tribal families in 10 States and a Union Territory.

18. NABARD organised an interactive national level consultative meet on fruit and vegetable processing in Mumbai in December 2005 in association with Ministry of Food Processing Industries, GoI, Agricultural and Processed Food Exports Development Authority and EXIM Bank. The meet was attended by 250 delegates representing various stakeholders. The deliberations concluded with the recommendations that three funds (Agro Export Infrastructure Development Fund, Export Market Development Fund and Fund for Organic Agriculture Products), be set up with a corpus of Rs.1,000 crore each, and a part of RIDF be earmarked for developing infrastructure for agro-processing units. The Union Budget for 2006-07 announced creation of a specific window in NABARD with a corpus of Rs.1,000 crore for financing the food processing industry.

19. With effect from 1 April 2005, GoI has entrusted NABARD with the responsibility of implementing the Kutch Drought Proofing Project through Community

Based Organizations and NGOs working in Kutch. An amount of Rs.3.54 crore has been provided for the purpose of which Rs.1.83 crore was sanctioned as grant assistance to implement six village development projects with Rs.79.43 lakh being disbursed during the year.

20. Ministry of Rural Development, GoI, has sanctioned two projects, one each in Bihar and Uttar Pradesh for setting-up of 100 Cattle Development Centres (CDCs) covering 13 and 17 districts, respectively, to be implemented through BAIF, Pune. Financial support of Rs.27.22 crore for a period of 5 years commencing from 2004-05 would be provided. NABARD has been designated as the project coordinator for ensuring proper and effective utilisation of funds, providing technical inputs, supervision, etc. As planned, 100 CDCs have been set up in each state. During 2005-06, NABARD undertook monitoring studies to oversee the implementation of the project in both States.

21. The Planning Commission has entrusted NABARD with the responsibility of implementing participatory watershed development projects in eight districts of south Bihar in association with NGOs, SHGs, watershed committees, etc. These projects with an allocation of Rs.60 crore envisage the development of 80,000 ha. of wasteland on the pattern of Indo-German Watershed Development Programme and Watershed Development Programme being implemented by NABARD. During 2005-06, three watershed projects involving grant assistance of Rs.18 lakh were sanctioned.

Non-Farm Sector

22. Effective from 1 October 2005, the Rural Promotion Corpus Fund (RPCF) and the Credit and Financial Services Fund (CFSF) were merged to form a new fund, the NABARD-SDC Rural Innovation Fund (RIF), to support/promote all existing activities covered under RPCF and CFSF as also innovative, unconventional experiments in farm, non-farm and micro-finance sectors. The RIF would be administered by a Steering Committee headed by Chairman, NABARD with prominent Economists and Social Activists as members. During 2005-06, an amount of Rs.19.11 crore was disbursed taking the cumulative disbursement to Rs.72.80 crore as on 31 March 2006.

23. The District Rural Industries Project (DRIP), introduced during 1993-94, is being implemented in 80 districts across the country in six phases with the objective of creating sustainable employment opportunities in rural areas through enhanced credit flow to Rural Non-Farm Sector (RNFS). During the year, 26 more districts were identified for implementation under phase seven (2005-2011). During 2004-05, GLC flow in DRIP districts reached Rs.5,423.67 crore leading to the establishment of 4.20 lakh units and generating employment for 9.25 lakh persons. Refinance of Rs.705.38 crore was availed. Since its inception, 10.95 lakh units (as on 31 March 2005) have been set up, generating employment opportunities for 23.34 lakh persons in 80 districts. GLC flow in these districts aggregated Rs.11,506.36 crore, while refinance availed was Rs.1,854.64 crore. To further facilitate effective credit delivery, training programmes for 73 PLIs involving 2,211 participants and 294 block level awareness meets for 9,681 participants were conducted during 2005-06.

24. The 'Scheme for Strengthening of Rural Haats' introduced in 1999 in DRIP districts has been extended to all districts that have NABARD's DDM offices. During the year, grant assistance of Rs.22.51 lakh was sanctioned for creation of infrastructure for eight rural haats in six States, taking the cumulative sanction to Rs.63.60 lakh for 27 rural haats in 22 DRIP districts across 12 States.

25. Rural Entrepreneurship Development Programme (REDP) was introduced in the early nineties to support capacity building of rural unemployed persons to enable them to set up enterprises. During the year, grant assistance of Rs.454.39 lakh was extended to support 871 REDPs covering 26,130 persons. Cumulatively 7,159 REDPs have been conducted covering 2.15 lakh persons and grant assistance of Rs.3,185.64 lakh was extended.

26. To further promote rural industrialisation through cluster approach, NABARD, during the year decided to undertake intensive development of 5 clusters on its own

and 50 clusters in partnership with other government agencies. As on 31 March 2006, proposals for developing 24 clusters in 16 States were approved under its New Policy for Cluster Development. To ensure smooth implementation and monitoring of the programme, during the year two capacity building programmes were organised for 42 officers of NABARD and 18 participants from NGOs, respectively, at the National Resource Centre for Cluster Development of National Institute of Small Industry Extension Training, Hyderabad.

27. During 2005-06, 2.88 lakh Swarozgar Credit Cards (SCCs) involving credit limits of Rs.1,410.65 crore were issued. As on 31 March 2006, 43 commercial banks, 97 RRBs (after amalgamation) and 118 co-operative banks had issued 4.68 lakh cards involving an aggregate credit limit of Rs.1,943.19 crore. During 2005-06, NABARD introduced a pilot scheme for two years, to support select RRBs and co-operative banks with one-time grant assistance to promote the SCC scheme.

28. 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) programme. During the year, grant assistance of Rs.9.93 lakh for eight projects and Rs.0.55 lakh for one project was sanctioned under ARWIND and MAHIMA schemes, respectively. NABARD sanctioned Rs.31.98 lakh to three RRBs under DEWTA for training, skills upgradation and capacity building of 3,271 women over a three year period ending 31 October 2006. During the year, nine RRBs and eight DCCBs were sanctioned financial assistance for setting-up of Women Development Cells.

29. During the year, NABARD supported 150 marketing events/exhibitions across the country involving grant assistance of Rs.30.41 lakh and also sanctioned Rs.6.89 lakh to the South Indian Producers' Association, Chennai to train Master Trainers in design development.

Micro-Finance

30. During the year 6,20,109 SHGs were credit linked to banks taking the cumulative number to 22,38,565. As on 31 March 2006, the programme enabled an estimated 329.80 lakh poor households in the country to gain access to micro-finance (MF) facilities from the formal banking system. The regional spread of the programme reveals that the southern region continued to account for a major share (54%) of the total number of SHGs credit linked.

31. NABARD continued to emphasise scaling-up of the SHG-Bank linkage programme in 13 priority States that account for 70 per cent of the country's rural poor. This has resulted in an increase in the number of SHGs credit linked from 1,41,804 as on 31 March 2002 to 10,05,272 as on 31 March 2006 and the share of these States in the cumulative number of SHGs credit linked increased from 31 to 45 per cent during the same period. Significant increase was observed in Assam, Bihar and Orissa.

32. A grant assistance of Rs.812.45 lakh was sanctioned to promote 38,317 SHGs to 15 co-operative banks, 8 RRBs, 337 NGOs and 9 IRVs during the year, taking the cumulative sanction to Rs.3,346 lakh for the promotion of 2.49 lakh groups with an amount of Rs.1,531 lakh being released as on 31 March 2006. NABARD also introduced a scheme for reimbursing commercial banks and RRBs 75 per cent of the cost of rating of MFIs charged by CRISIL.

33. Under NABARD's capacity building programmes for its partner institutions, 343 exposure/field visits to SHGs and institutions pioneering in MF for 8,152 bank/NGO officials, 662 training programmes for 30,363 bank officials and 136 awareness programmes for 4,339 participants from NGOs, were arranged during the year. NABARD also extended support for conducting 3,071 awareness creation and capacity building programmes covering 2.03 lakh SHG members.

34. To motivate and assist members of matured SHGs to take up income generating activities on a sustainable basis, NABARD initiated a pilot project for promotion of micro-enterprises in nine districts across the country in association with Marketing And Research Team (MART) as its technical partner. Under the project, identified NGOs will act as Micro-Enterprise Promotion Agencies. During 2005-06, a focussed and location specific micro-enterprise development programme on skills upgradation for members of matured SHGs was launched.

35. Continuing its efforts to innovate and sustain the SHG-Bank linkage programme, the Bank, during the year introduced a pilot project to create a community based social security system for SHG members in rural areas, apart from continuing earlier pilot projects, viz., financing Joint Liability Groups and Rythu Mithra Groups, Involvement of Rural Volunteers as Book Writers, training of skilled rural youths as Computer Munshis, setting-up of Grain Banks, project on 'e-Grama', and use of information technology (IT) in the form of processor cards.

36. A conference on 'Micro-Finance in India' was organised by NABARD in association with GTZ and SDC in May 2005 at New Delhi to deliberate on the existing status of the MF sector in the country and to evolve future strategies. It was attended by 100 delegates representing various stakeholders from India and abroad.

37. With a view to encouraging and providing a boost to the MF movement, as also recognising the best practices in this field, NABARD, in an Award Function in September 2005 felicitated 15 best performing SHGs.

38. Under the redesignated Micro-Finance Development and Equity Fund (MFDEF) set up in NABARD with a corpus of Rs.200 crore, an amount of Rs.11.35 crore was utilised during the year for MF related activities. NABARD's collaboration with GTZ continued during the year and NABARD signed an implementation

agreement on a new project, Rural Finance Programme scheduled to be completed by 31 December 2007.

Research and Development Activities

39. During the year, an amount of Rs.601 lakh was disbursed from the R & D Fund as grant assistance for training activities (Rs.541 lakh), research projects/studies (Rs.28 lakh) and other activities like conduct of seminars, preparation of occasional papers, etc., (Rs.32 lakh) taking the cumulative disbursement to Rs.83.54 crore. During 2005-06, three research projects/studies involving grant assistance of Rs.18.96 lakh were sanctioned and four projects/studies sanctioned earlier were completed.

40. Grant assistance of Rs.50.51 lakh was sanctioned during the year to various universities and research institutes for conducting 100 conferences, seminars and workshops. Nine Occasional Papers were published 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

41. Bankers Institute of Rural Development, Lucknow was awarded ISO (9001:2000) Certification by the British Standards Institute. During the year, NABARD conducted 388 training programmes through its own training establishments for the benefit of 9,159 personnel of Rural Financial Institutions and supplemented the efforts of other training institutions in this area by providing technical and financial support. Grant assistance of Rs.13.37 lakh and Rs.17.35 lakh was provided to IIBM, Guwahati and MDMI, Shillong, respectively, to enable them to cater to the training needs of financing institutions in the NER. NABARD also continued its contribution towards subsidising the participation fees of personnel of client institutions through various schemes of providing such financial support. Financial support of Rs.524.85 lakh was extended to JLTCs and ACSTIs during the year for conducting 963 programmes covering 22,391 participants out of the Co-operative Development Fund.

Business Operations

42. NABARD through its refinance support supplements the resources of co-operative banks, commercial banks, RRBs and scheduled PUCBs for enhancing credit flow to the agriculture and rural sector. For rural infrastructure development the Bank provides loans to State Governments through RIDF. The total financial support extended by NABARD in the form of loans and grants increased by 13.2 per cent from Rs.27,103 crore during 2004-05 to Rs. 30,679 crore during 2005-06.

Agricultural Credit

43. To ensure availability of adequate credit to farmers, GoI 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. NABARD was entrusted with the responsibility of overseeing the implementation of the programme and its monitoring. Various initiatives taken by NABARD and the active participation of client institutions in the programme resulted in total disbursement of Rs.1,25,309 crore, exceeding the target by 19 per cent. The GLC flow, which witnessed an annual growth of 18 per cent during the period 2001-04, increased by 44 per cent during 2004-05, over the previous year.

44. During 2004-05, crop loans increased by 38 per cent, while term loans showed comparatively better growth (54%) over the previous year. Significant increase in credit flow was observed in the case of minor irrigation, land development and hi-tech agriculture, while moderate increase was revealed in the case of farm mechanisation, fisheries and plantation/ horticulture during 2004-05.

45. The GoI set a target of Rs.1,41,000 crore for credit flow to agriculture by all agencies during 2005-06. Public Sector Banks (PSBs) were also advised to finance 50 lakh new farmers and issue 50 lakh fresh Kisan Credit Cards (KCCs) during the year. The progress in the

implementation of the credit package as on 31 March 2006 indicates that the total disbursement by all agencies was at Rs.1,57,480 crore, exceeding the target by 12 per cent and registering a 26 per cent growth over the previous year. Commercial banks, co-operative banks and RRBs disbursed Rs.1,06,152 crore, Rs.37,252 crore and Rs.14,076 crore achieving 122, 96 and 93 per cent of the targets, respectively. GLC flow from commercial banks, co-operative banks and RRBs increased by 30, 19 and 13 per cent, respectively, over the previous year.

46. During 2005-06, 78.73 lakh new farmers were brought under the institutional fold, 80.12 lakh fresh KCCs were issued, 1,095 agri-clinics were financed, debt relief of Rs.2,884.91 crore and Rs.899.35 crore was provided to farmers in distress and in arrears, respectively, and an amount of Rs.609.55 crore to small/marginal farmers under one time settlement scheme was provided by banks. Banks also extended loans to the extent of Rs.31.41 crore to 8,282 farmers, to redeem their past debts availed from informal sources.

47. The KCCs scheme introduced in August 1998, has facilitated in augmenting the GLC flow for crop loans. During the year, co-operative banks, RRBs and commercial banks issued 25.98 lakh, 12.49 lakh and 41.65 lakh cards, respectively. Of the total 590.93 lakh cards issued as on 31 March 2006, co-operative banks accounted for the largest share (51%), followed by commercial banks (37%) and RRBs (12%).

48. With a view to expanding the coverage of borrowers under KCC and improving the flow of credit, NABARD advised co-operative banks and RRBs to continue their endeavour to identify and bring into the KCC fold other farmers including defaulters, oral lessees, tenant farmers, etc. Banks were advised to include both term loans and consumption loans along with crop loans, to extend crop loans only through KCC and renew the KCCs so as to ensure 'quality in operations'.

Production Credit

49. Short-term (ST) refinance support under Section 25(1) (d) of NABARD Act, 1981, introduced in December 2004 on a pilot basis for SCARDBs in Haryana, Kerala and Punjab was continued. During the year, a limit of Rs.17.30 crore was sanctioned to Kerala SCARDB against which drawal as at end-March 2006 was Rs.14.17 crore.

50. In the revised ST-SAO policy for co-operative banks, the quantum of refinance support was linked to their gross NPA levels. The ST credit limits sanctioned during 2005-06 (July-March) for SCBs and RRBs were Rs.8,518.55 crore and Rs.2,499.45 crore, an increase of 4 and 25 per cent, respectively, over the same period of the previous year. The maximum outstanding level reached was 90 and 86 per cent, in the case of SCBs and RRBs, respectively. For financing agriculture/allied and marketing activities, during the year credit limits aggregating Rs.352.08 crore were sanctioned to Punjab, Rajasthan and Tamil Nadu SCBs, which were utilised to the extent of Rs.276.37 crore.

51. NABARD provides refinance to SCBs and RRBs for extending pledge loans to farmers either directly or through PACS/marketing societies in order to enable cultivators to hold on their stocks in anticipation of better prices. During 2005-06, the ceiling for providing support for marketing of crops was raised from Rs.5 lakh to Rs.10 lakh per farmer and ST credit limits aggregating Rs.55 crore were sanctioned to Gujarat and Karnataka SCBs.

52. During the year, ST (weavers) credit limits aggregating Rs.323.19 crore were sanctioned to eight SCBs for financing production/procurement and marketing activities of Weavers' Co-operative Societies. Credit limits of Rs.8.50 crore were sanctioned to Andhra Pradesh and Tamil Nadu SCBs on behalf of apex/regional weavers' societies for trading in yarn. Credit limits of Rs.26.79 crore were sanctioned to SCBs for financing industrial co-operatives and individual rural artisans against which utilisation was Rs.16.04 crore. The aggregate sanction of credit limits for ST (OSAO) purposes to RRBs was Rs.255.95 crore.

53. NABARD extended liquidity support to SCBs (on behalf of DCCBs) and RRBs, at an interest rate of 5 per cent p.a. for a fixed period of 36 months, with the subvention of GoI at the rate of 1.5 per cent on the amount to be disbursed by NABARD to banks. Disbursements to SCBs and RRBs as on date of closure of the scheme (31 December 2005) were Rs.1,864.71 crore and Rs.627.10 crore, respectively.

54. NABARD conducted 35 monitoring studies under the credit monitoring arrangement during 2005-06. The major shortcomings observed during such studies were communicated to SCBs/DCCBs to enable them to improve the quality of appraisal of large advances and the monitoring mechanism.

55. The Hon'ble Union Finance Minister announced a financial package for the sugar industry in the Union Budget 2005-06. NABARD formulated a scheme for providing a financial package for sugar factories in the country, in consultation with RBI, IBA, co-operative banks and State Governments.

56. In terms of the scheme formulated by NABARD, commercially viable Co-operative Sugar Mills having term loans outstanding as well as operational surpluses as on 31 March 2005 are to get their loans rescheduled. Depending upon the magnitude, their term loans are being restructured/rescheduled to enable repayment within five years (Category A) and within 15 years (Category B) including a moratorium of two years for payment of interest and principal for both the categories. As per the terms of the package, banks are required to reduce the rate of interest on the restructured loans to 10 per cent p.a. with effect from 1 April 2005, irrespective of the originally contracted rate with subvention assistance from GoI to financing banks. GoI has agreed to provide a maximum of 3 per cent interest subvention on restructured loans and will be providing Rs.525 crore as interest subvention on such loans of SCBs/DCCBs and a further Rs.35 crore on restructured loans of Urban Co-operative Banks.

Investment Credit

57. During 2005-06, refinance disbursement to commercial banks, SCBs, SCARDBs, RRBs and other eligible financial institutions aggregated Rs.8,622.37 crore as compared to Rs.8,577.46 crore during the previous year. Commercial banks accounted for the highest share (46.7%) in the total refinance disbursed during the year and their share continued to increase over the period 2003-06. The share of RRBs and co-operative banks declined. Declining share of co-operative banks (both ST and LT structures) could be attributed to their declining absorptive capacity due to high/increasing NPAs and poor/declining recoveries.

58. The flow of refinance varied widely across states and regions with Uttar Pradesh (Rs.1,548.99 crore) absorbing the largest amount, followed by Punjab (Rs.948.44 crore) and Andhra Pradesh (Rs.751.71 crore). Central, northern and southern regions accounted for 26.8, 25.0 and 24.0 per cent, respectively, of the refinance disbursed during the year. Non-farm sector (including rural housing) had the highest share (26.5%), followed by farm mechanisation (19.9%), minor irrigation/land development (13.7%), SHGs (12.4%), animal husbandry (11.2%), plantation/horticulture (3.7%) and other purposes (12.6%).

59. Bank loans disbursed to SHGs during the year aggregated Rs.4,499.09 crore. NABARD provided refinance aggregating Rs.1,067.72 crore for supporting 2,17,712 SHGs. In terms of participation of different financing agencies under the programme, co-operative banks increased their share from 12 (31 March 2004) to 14 per cent (31 March 2006). During the same period, the number of SHGs financed by co-operative banks increased by 130 per cent. Co-operative banks have played a major role in SHG credit linkage in Karnataka, Kerala, Maharashtra, Tamil Nadu and West Bengal.

60. NABARD's initiatives in promoting Agri-Export Zones (AEZs) have resulted in refinance disbursement of Rs.552.35 crore for various crops under AEZs during 2005-06 (Rs.437.14 crore during 2004-05). Regional Offices of NABARD in Karnataka, Madhya Pradesh,

Maharashtra, Punjab, Rajasthan and Tamil Nadu conducted State level meetings to review the progress in implementation of AEZs in the respective State.

61. During the year 12,630 units were financed involving bank loans of Rs.190.84 crore under a scheme for financing purchase of land by small/marginal farmers. Under the scheme for setting-up agri-clinics and agri-business centers, 3,071 agripreneurs out of 10,047 trained agriculture/ veterinary graduates have set up such units in different part of the country as on 31 March 2006. During the year 1,095 agri-clinics/agri-business centres were established with the support of bank loan.

62. Seven projects involving a total financial outlay of Rs.220.06 crore and bank loan of Rs.134.46 crore for co-financing with commercial banks were sanctioned during the year, NABARD's share being Rs.38.73 crore.

63. During the year, interest rates on refinance for investment credit were revised with effect from 7 February 2006. For all activities in NER and for ACABC in all regions, interest rate of 6.5 per cent was charged irrespective of loan amount. For all other activities under farm and non-farm sectors, interest rate of 6.5 and 7 per cent was charged for loan size upto Rs.50,000 and above Rs.50,000, respectively.

64. As a nodal agency, NABARD has been involved in preparation and dissemination of model schemes, overseeing the operationalisation, administration of subsidy and monitoring progress. Seven Capital Investment Subsidy (CIS) schemes of GoI, viz., (i) construction of cold storages and onion godowns, (ii) construction of rural godowns, (iii) on-farm water management in Eastern States, (iv) million shallow tubewell programme, (v) water harvesting scheme for SC/ST farmers, (vi) development/strengthening of agriculture marketing infrastructure, grading and standardisation, (vii) commercial production units of organic inputs under National Project on Organic Farming, continued to be implemented during the year. A scheme for providing RFA and interest subsidy for dairy and poultry sectors out of the Venture Capital Fund

is also being implemented through NABARD and a scheme for development of horticulture in four districts of Bihar was introduced during the year.

65. NABARD conducted monitoring studies of various investments in coordination with financing banks and concerned nodal departments of the State Government to identify factors affecting the smooth implementation of schemes so as to ensure quick remedial action. During the year, 31 investment and 13 scheme specific studies were conducted covering major investments under farm sector, NFS and government sponsored schemes. Apart from these, seven impact evaluation studies covering various investments/activities under farm sector, *viz.*, minor irrigation, tractors, combine harvestors, poultry farming, gherkins and non-farm sector were conducted.

66. Under the externally aided projects which were at various stages of implementation an amount of Rs.2.13 crore was disbursed and Rs.2.20 crore received as grant assistance during the year.

Rural Infrastructure Development

67. An allocation of Rs.8,000 crore was made under XI tranche of RIDF for 2005-06. During the year 30,440 projects involving a loan amount of Rs.8,514.33 crore were sanctioned under RIDF XI, taking the cumulative number of projects to 2,44,651 and amount sanctioned to Rs.51,283.01 crore as on 31 March 2006. Of the total amount sanctioned during 2005-06, rural road and bridge projects accounted for 45.9 per cent, irrigation projects for 32.7 per cent, social and power sector projects 15.0 per cent and others for the rest. Out of the total amount sanctioned during the year, the share of social sector and rural road projects increased while that of irrigation and bridge projects declined as compared to their share in cumulative sanctions under RIDF I to X.

68. During the year, an amount of Rs.5,953.32 crore was disbursed, taking the cumulative amount of Rs.31,337.34 crore as on 31 March 2006, indicating 70.6 per cent achievement against the amount phased

(under RIDF I to XI) of Rs.44,390.71 crore. The sector-wise utilisation against sanctions were at 72 and 74 per cent in the case of irrigation and rural road/bridge projects, respectively, while it was 57 per cent for social sector projects as on 31 March 2006. The State-wise analysis of ratio of disbursements to sanctions (as per phasing) reveals that Sikkim topped with 94 per cent, followed by Mizoram (93%), Himachal Pradesh (83%), Jammu & Kashmir (79%), Uttar Pradesh (78%), Punjab (77%) and Meghalaya, Rajasthan and Tamil Nadu (76%). Utilisation was low in Bihar (33%), Jharkhand (48%), Tripura (57%) and Assam and Manipur (59%). The slow pace of actual utilisation of loans compared to phasing under RIDF in some of the States is attributed to various reasons, *viz.*, land acquisition problems, delays in tendering process, inadequate budgetary support at the state level, lack of coordination among implementing departments, etc.

69. During the year, deposits of Rs.6,092.37 crore were received from commercial banks and State Government repaid an amount of Rs.1,324.03 crore.

70. NABARD continued to monitor the projects being implemented under RIDF at its ROs through desk reviews of periodic returns and field visits undertaken by DDMs and consultants appointed by the Bank. During the year 8,960 projects were monitored through field visits. The monitoring 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.

Special Package for NER

71. NABARD continued its policy of facilitating larger flow of credit to the NER and Sikkim by granting relaxations to co-operative banks and RRBs operating in these States in respect of eligibility criteria for refinance, rate of interest on refinance, etc. A pilot scheme on routing credit to Village Development Boards (VDBs) introduced in Nagaland during 2003-04 continued. Of the 25 VDBs identified for implementation of the scheme, 17 have availed loans from the State Bank of India.

NABARD Consultancy Services

72. NABARD Consultancy Services (P) Ltd. (Nabcons), a wholly owned subsidiary of NABARD, has established itself as a dependable and professional consultancy service provider in the sphere of agriculture, rural development and allied areas. During the year, 154 assignments involving consultancy fees of Rs.1,154 lakh were contracted and 101 assignments completed. Since its establishment, Nabcons has contracted 321 assignments involving consultancy fees of Rs.1,983 lakh. The Company's clientele includes various departments of GoI, State Governments, financial institutions, corporate houses, NGOs, international bodies, etc. During the year, Nabcons organised 21 capacity building programmes including exposure visits/international visitors' programmes for clients from various countries, covering areas like rural financial system, micro-finance, women empowerment, etc.

Management of Resources

73. The financial resources of NABARD increased by Rs.6,826 crore during 2005-06 as against an increase of Rs.4,890 crore during the previous year. Resources were augmented by issuing Capital Gains Bonds (Rs.4,342.51 crore), Priority Sector Bonds (Rs.1,464 crore), Non-Priority Sector Bonds (Rs.2,384

crore) and RIDF deposits (Rs.6,092.37 crore). Total working funds increased by 6.6 per cent to Rs.67,605 crore as on 31 March 2006 from Rs.60,779 crore as on 31 March 2005. Outstanding market borrowings of the Bank at Rs.24,084 crore, constituted 35.6 per cent of working funds, as on 31 March 2006.

74. The funds raised have been utilised for schematic lending, ST/MT/MT (Conversion) loan assistance and loans to State Governments under RIDF and non-project loans. The outstandings under schematic lending, ST loan advanced for financing SAO together with loans under NABARD line of credit/other ST loans and loans to State Governments under RIDF were at Rs.30,158 crore, Rs.9,617.35 crore and Rs.15,142.41 crore, respectively, as on 31 March 2006.

75. The total income of the Bank was at Rs.3,936.47 crore (Rs.3,938.74 crore during the previous year) during the year. After making provision for Income Tax (Rs.314.23 crore), contribution to Special Reserve (Rs.450 crore), transferring to NRC (LTO) Fund (Rs.30 crore) and NRC (Stabilisation) Fund (Rs.10 crore), the surplus left over of Rs.528.96 crore, including withdrawals of Rs.161.70 crore from funds against expenditure debited to P & L Account (after meeting expenditure of Rs.2,764.98 crore) was transferred to various funds maintained by the Bank.

Capacity Building of Client Institutions

76. The functioning and performance of rural co-operative credit institutions continued to suffer from several weaknesses including high NPAs/poor recovery and accumulated losses. In view of this, NABARD continued to provide focussed attention to facilitate the growth and development of rural credit institutions, particularly co-operative banks and RRBs.

Institutional Development

77. The loans issued by SCBs, DCCBs and PCARDBs increased by 31, 13 and 19 per cent, respectively, during 2004-05 over the previous year. The overall profit earned by 31 SCBs was Rs.289 crore, while the profit earned by 26 SCBs, which were in profit during 2004-05, was

Rs.355 crore. Out of 367 DCCBs, 288 were in profit to the tune of Rs.1,376 crore, while the net profit earned by all DCCBs together was Rs.948 crore during 2004-05, as compared to Rs.101 crore during the previous year. The losses of SCARDBs increased further to Rs.162 crore during 2004-05, from Rs.116 crore during 2003-04. However, PCARDBs were able to earn profit of Rs.323 crore during 2004-05.

78. There were wide variations across the regions in the performance of co-operative credit institutions. During 2004-05, profits of SCBs from central, northern and southern regions increased, while those from eastern and western regions declined. Losses of SCBs

in the north-eastern region increased further during 2004-05 over the previous year. In the case of DCCBs, profit of profit-making DCCBs increased and losses of loss-making DCCBs decreased considerably in eastern, western and southern regions during 2004-05, over the previous year. During 2004-05, in the case of SCARDBs from the central region, profits increased while in the northern region profits declined. Losses of SCARDBs in western and eastern regions increased considerably while in the southern region, those declined. In the case of PCARDBs, profits of profit-making PCARDBs increased during 2004-05 in northern, western and southern regions.

79. As on 31 March 2005, 5 out of 31 SCBs, 79 out of 367 DCCBs, 53,626 out of 1,05,735 PACS, 8 out of 19 reporting SCARDBs and 472 out of 693 reporting PCARDBs incurred losses, which together amounted to Rs.8,601 crore (excluding PACS). The poor recovery of loans/high proportion of NPAs to loans and advances outstanding in co-operative banks continued to be an area of concern.

80. 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 with certain refinements. PACS were brought into the development planning process and were advised to prepare action plan for attaining viability and enter into MoUs with respective DCCBs. Special thrust was given on monitoring of DCCBs that were not complying with Section 11(1) of B.R.Act, 1949 (AACS).

81. With the objective of supporting developmental initiatives of co-operative credit institutions, NABARD provides financial support through the Co-operative Development Fund (CDF). During the year, an amount of Rs.5.63 crore was sanctioned and Rs.6.07 crore was disbursed taking the cumulative sanctions and disbursements under CDF to Rs.70.80 crore and Rs.61.44 crore, respectively, as on 31 March 2006.

82. The Task Force on Revival of Rural Co-operative Credit Institutions constituted under the Chairmanship

of Prof. A. Vaidyanathan submitted its report to GoI in February 2005 and made major recommendations relating to institutional, regulatory and legal reforms alongwith financial requirements for revitalisation of short-term co-operative credit structures (STCCS) and also suggested an implementation mechanism. The GoI approved a financial package of Rs.13,596 crore for the revival of STCCS. As on 31 March 2006, five State Governments (Gujarat, Madhya Pradesh, Maharashtra, Orissa and Rajasthan) had communicated their acceptance to GoI in implementing the revival package.

83. NABARD as an implementing agency initiated steps which include: (i) setting-up of a new Department (Department of Co-operative Revival and Reforms) to deal with the implementation of the revival package, (ii) making presentations to individual State Governments on the package and its conditionalities, (iii) devising and field testing formats for the conduct of special audit, (iv) preparation and finalisation of two draft MoUs to be entered into between GoI, participating State Government and NABARD, and between State Governments and respective SCBs, (v) initiating the process for introduction of Common Accounting System and MIS, (vi) designing proper HRD systems including training for personnel of STCCS.

84. In the case of RRBs, their financial performance improved during 2004-05, especially in relation to reduction in NPAs and improvement in recovery. In all, 166 RRBs showed improvement in their performance either by way of increase in profits or reduction in losses by shifting from loss to profits at end-March 2005. The number of RRBs which had wiped off accumulated losses and attained sustainable viability increased to 111 (from 106) and 55 RRBs also attained current viability. The number of RRBs with accumulated losses declined from 97 (at end-March 2003) to 83 (at end-March 2005). The performance of RRBs varied widely across regions. In the southern region, all RRBs were in profit, in the central region it was 60 out of 64, in the northern region 25 out of 28 and in the western region 17 out of 19, while in the NER out of 11 RRBs 6 were in profit.

85. The recovery performance of RRBs as on 30 June 2005 was above 85 per cent in four States, viz., Haryana, Kerala, Punjab and Tamil Nadu while it was poor mostly in the States of NER and Jharkhand. The number of RRBs having loan recovery above 80 per cent increased from 59 as at end-June 2004 to 88 as at end-June 2005. RRBs with recovery levels between 40 and 60 per cent reduced to 15 (from 19) during 2004-05. The recovery performance of RRBs at aggregate level improved from 77.7 per cent as at end-June 2004 to 79.8 per cent as at end-June 2005.

86. During 2004-05, 150 RRBs, as against 78 during 2003-04, registered a decline in NPAs. Similarly, there was a steep decline in gross NPAs as a percentage of loans and advances outstanding from 12.6, as at end-March 2004 to 8.5 as at end-March 2005. However, 94 RRBs had NPA levels above the national average of 8.5 per cent and 20 RRBs had high NPA levels (above 20%) as at end-March 2005. Low level of NPAs was observed in the case of RRBs in northern (5%) and southern (4.6%) regions. NPA level of RRBs in north-eastern (16.3%), western (12.9%) and eastern (11.9%) regions were comparatively higher than the all India average of 8.5 per cent as at end-March 2005.

87. During the year 4,312 farmers' clubs were launched taking the total number of clubs to 17,976 spread in 40,885 villages of 524 districts as on 31 March 2006. RRBs promoted maximum clubs (7,525), followed by commercial banks (4,493) and co-operative banks (4,148). Other agencies like NGOs, KVKs, etc., promoted 1,810 clubs.

Supervision over Banks

88. Keeping in view the need for effective supervision over the sizeable number of weak banks, the frequency of on-site inspections has been increased from 2005-06. Accordingly, it has been decided to conduct statutory inspections of all SCBs, of those DCCBs and RRBs which are not complying with minimum capital requirements as required under B.R. Act, 1949 (AACS) and RBI Act, 1934, respectively, and inspections of all SCARDBs every year. The statutory inspections of those

DCCBs and RRBs having positive net worth and voluntary inspections of Apex Co-operative Societies/Federations would continue to be conducted once in two years.

89. During the year, statutory inspections of 416 banks (31 SCBs, 265 DCCBs and 120 RRBs) and voluntary inspections of 18 SCARDBs and of a Weavers' Society, Gujarat were conducted. Some of the supervisory concerns relating to these banks brought out by inspections were, improper application/implementation of income recognition and asset classification norms, high level of NPAs and erosion in value of assets, inadequate provisioning for impaired assets, inadequate risk management strategies, deficiencies in sanction and disbursement of loans and inadequate supervision over end-use of credit, weak internal checks and control systems, poor credit monitoring arrangements, etc.

90. The Board of Supervision (BoS) for SCBs, DCCBs and RRBs, met four times during the year and reviewed the functioning of insolvent SCBs and DCCBs, State-wise functioning of co-operative credit institutions, implementation of prudential norms by DCCBs, frauds, misappropriation, embezzlements, defalcations, etc., in banks. BoS also reviewed the functioning of SCBs and SCARDBs based on inspection findings, follow-up action taken on the recommendations for initiating regulatory action against SCBs and DCCBs, deposit insurance cover for deposits of co-operative banks, etc. The Board expressed concern over deterioration in the financial performance of co-operative banks not complying with provisions of Section 11(1) of B.R. Act, 1949 (AACS), as also, the absence of penal provisions against banks not adhering to RBI's guidelines for asset classification, provisioning, etc.

91. As on 31 March 2006, 6 SCBs and 130 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 non-compliant co-operative banks aggregated Rs.11,784.26 crore, which had not only eroded their entire owned funds but also affected deposits to the extent of Rs.3,972.44 crore.

Organisation and Management

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

93. During the year, six meetings of the Board of Directors of NABARD were held, while the Executive Committee, the Project Sanctioning Committee for loans under RIDF and the Audit Committee met four, six and four times, respectively. A Risk Management Committee comprising seven members was constituted which met once during the year.

94. Reserve Bank of India conducted the eighth financial inspection of NABARD with reference to the financial position as on 31 March 2005 during February 2006.

Training and Skill Enhancement

95. National Bank Staff College (NBSC), Lucknow was awarded ISO (9001:2000) Certification by M/s. URS Certification Ltd. During the year, 98 training programmes covering 1,758 officers were conducted at NBSC, Lucknow in functional, behavioural and technical areas. New programmes, *viz.*, Turnaround Strategy for Weak Banks, Funds and Asset Liability Management, Skills in Consultancy Assignments and Advanced Problem Solving Programmes for officers of DoS were also introduced. Besides, 553 officers were deputed for tailor-made and off-the-shelf programmes, exposure visits, workshops, etc., and special exposure visits/ programmes were organised at reputed institutions for select groups of officers with the objective of developing their skills, knowledge and attributes. As also 67 officers were deputed abroad for various overseas training programmes, exposure visits, seminars, etc. Sixty-eight training programmes covering 987 employees in Group 'B' and 'C' were conducted at NBTC, Lucknow and ZTC, Hyderabad.

Recruitment and Promotions

96. During the year, 7 and 13 persons were appointed in Group 'B' and 'C' cadres, respectively, and 108 employees were promoted from Group 'B' to the officer cadre. NABARD adhered to the instructions issued by GoI from time to time regarding reservations for SCs/ STs, both through direct recruitment and through promotions, in all grades upto which the Bank has accepted to provide reservations.

Other Matters

97. Preventive Vigilance Inspection of three ROs/TEs and two Chief Technical Examiner type inspections of civil/electrical structures of the Bank at Kolkata and Mumbai were undertaken during the year. Vigilance Awareness Week was observed by the Bank in November 2005.

98. Inspection of 23 ROs and 17 HO departments was undertaken during the year. In order to improve the efficiency and effectiveness of the staff posted in Inspection Department, training on Treasury Management and Information System Audit was organised and a workshop for 32 officers working as Concurrent Auditors in ROs was held during the year.

99. In pursuance to Supreme Courts directions, a Central Complaints Committee at HO and 22 Regional Complaints Committees at ROs are functioning for prevention of sexual harassment of women at the work place.

100. The Bank continued its efforts for promotion of Hindi in its day-to-day working. Apart from training 53 staff members under the Hindi teaching scheme of GoI, a translation training programme for 17 Rajbhasha officers and a workshop for senior officers were organised during the year.