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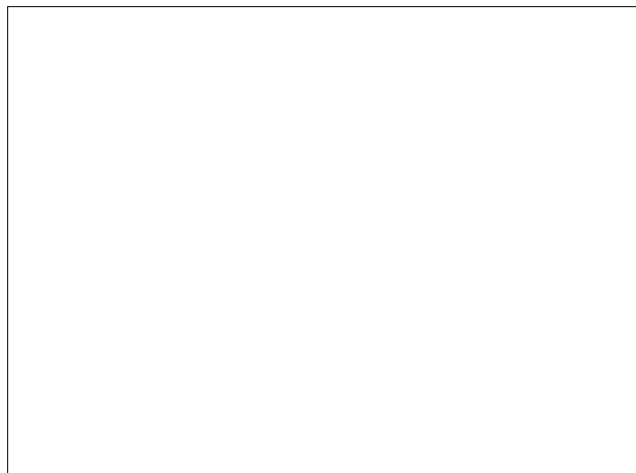
Business Operations

NABARD through its refinance operations has been supporting the banking sector to augment credit support for production and investment purposes in the agriculture and rural sector. NABARD also continued its involvement in developing rural infrastructure by providing loans under RIDF to State Governments for such projects. The Bank is actively involved in further streamlining and improving its credit planning process at the grassroots level taking into account the changing requirements of the agriculture and rural sector.

3.2 By leveraging on the core competence and multi-disciplinary expertise of its parent organisation, NABARD Consultancy Services Pvt. Ltd. (Nabcons), a wholly owned subsidiary of NABARD registered on 17 November 2003 as a separate company, continued to execute consultancy assignments.

3.3 This Chapter presents a review of the Bank's refinance and loaning operations, their impact at the

ground level, consultancy services provided by its subsidiary and mobilisation and management of its resources. The total financial support extended by NABARD increased at a compound annual growth rate of 16 per cent over a period of five years and reached Rs.33,474 crore during 2006-07 (Chart 3.1).



Production Credit

A. Short-Term Refinance

a. State Co-operative Agriculture and Rural Development Banks

3.4 The scheme for providing short-term (ST) refinance support introduced on a pilot basis in December 2004 to SCARDBs in Haryana, Kerala and Punjab was continued and refinance was made available at 4 per cent p.a. for loans up to Rs.3 lakh extended to the ultimate borrower at 7 per cent p.a. For financing crop loans and allied activities of farmers, a total limit of Rs.48.45 crore was sanctioned during 2006-07 under the scheme.

b. State Co-operative Banks

i. Support for Seasonal Agricultural Operations

3.5 As per the revised policy regarding extending support for short-term Seasonal Agricultural Operations

(ST-SAO) to co-operative banks, the quantum of refinance assistance to SCBs continued to be linked to their gross NPA levels. Consolidated ST-SAO limits were sanctioned to eligible SCBs to the extent of 35 to 40 per cent of crop loans expected to be issued during 2006-07 depending on their NPA levels ($\geq 20\%$). Further, the limit was divided into core and flexible refinance components in the ratio of 80:20. Apart from this, the minimum coverage for SF/MF was stipulated at 30 per cent and banks were advised to ensure that at least 2 per cent of the crop loans are issued to oral lessees and tenant farmers.

3.6 During 2006-07 (July-March), ST credit limits for SAO aggregating Rs.12,570.24 crore were sanctioned to 16 SCBs as against Rs.8,518.55 crore

sanctioned during 2005-06 (July-March) to 18 SCBs. During 2005-06 (July-June), credit limits aggregating Rs.8,548.13 crore were sanctioned. The credit limits sanctioned for 2006-07 included Rs.1,110.55 crore for the Oilseeds Production Programme (OPP), Rs.110.50 crore for National Pulses Development Programme (NPDP) and Rs.316.91 crore for meeting the production credit requirements of tribals under the programme for Development of Tribal Population (DTP). The SCBs had reached a maximum outstanding level of Rs.10,240.51 crore during 2006-07 constituting 81 per cent utilisation of the limits sanctioned (Chart 3.2).

3.7 Of the aggregate credit limits sanctioned, SCBs in northern (Haryana, Punjab and Rajasthan) and southern (Andhra Pradesh, Karnataka, Kerala, Pondichery and Tamil Nadu) regions accounted for 38 and 27 per cent, respectively, while those in central (Chhattisgarh, Madhya Pradesh and Uttar Pradesh), western (Gujarat and Maharashtra) and eastern (Bihar, Orissa and West Bengal) regions accounted for 11, 16 and 8 per cent, respectively. In the NER only Meghalaya SCB could avail of credit limit during the year.

3.8 The policy governing provision of refinance by NABARD to SCBs for financing approved ST agricultural/allied and marketing activities has been continued during 2006-07 with certain modifications. Credit limits of Rs.231.18 crore sanctioned to Punjab and Rajasthan SCBs for such purposes were utilised to the extent of Rs.134.27 crore, during 2006-07.

ii. Support to Weavers

3.9 The policy in respect of sanction of working capital credit limits to SCBs/DCCBs for financing production/marketing activities of Primary Handloom Weavers' Co-operative Societies (PHWCS) as well as procurement and marketing operations and trading-in-yarn by regional/apex weavers' co-operative societies was reviewed and the following modifications effected.

- i. SCBs having 'A' or 'B' audit class, have earned profit for the last 3 years and with no accumulated losses and their gross NPAs not exceeding 20 per cent were eligible for NABARD support.

- ii. DCCBs with gross NPAs upto 30 per cent and having earned operating profit for last 2 years were eligible for normal credit limits, DCCBs with gross NPAs upto 40 per cent and having earned operating profit in the preceeding year were eligible for credit limits upto maximum outstanding reached in the previous year (2005-06), while DCCBs with gross NPAs more than 40 per cent were not eligible.
- iii. SCBs/DCCBs not complying with provisions of Section 11 (1) of B. R Act, 1949 (AACS), were eligible for credit limits against government guarantee/pledge of securities irrespective of level of deposit erosion.
- iv. SCBs/DCCBs under RBI directions for non-acceptance of fresh deposits from public were not eligible.
- v. Efficiently run PHWCSs in the jurisdiction of ineligible DCCBs were eligible to avail credit limit through the neighbouring branches of SCB/nearby DCCB.
- vi. Rate of interest on refinance was 6 per cent in respect of PHWCSs and 6.25 per cent in respect of Apex Societies.

3.10 During 2006-07, ST (weavers) credit limits aggregating Rs.302.46 crore were sanctioned to six SCBs (Andhra Pradesh, Gujarat, Karnataka, Orissa, Tamil Nadu and West Bengal) for financing production/procurement/marketing activities and Rs.5 crore for trading-in-yarn of primary/apex WCSs.

3.11 The High Level Committee appointed by Ministry of Textiles (MoT), GoI, to suggest measures for revival of the Handloom Sector (Chairman: Managing Director, NABARD) has recommended organising weavers outside the co-operative fold/members of non-viable or defunct PHWCSs, weavers in the areas of weak co-operative credit structure into Handloom Weaver's Groups (HWGs) on the lines of Joint Liability Groups (JLGs) focussing on handloom clusters. Accordingly, a scheme formulated by NABARD for financing HWGs by co-operative banks, RRBs and commercial banks has been approved by MoT, GoI. The scheme envisages financing the production/investment/consumption needs of the members of HWGs. The scheme was circulated to co-operative banks and RRBs during March 2007 for implementation. RBI

has been requested to advise commercial banks to implement the scheme.

c. Regional Rural Banks

3.12 During 2006-07, quantum of refinance was restricted to maximum outstanding reached during the previous year (2005-06). In the case of merged banks, the financial position of RRBs as on date of merger based on special audit or aggregate audited position as on 31 March 2005 of the erstwhile RRBs was considered for sanction of limits. RRBs were also advised to extend at least 2 per cent of their crop loans to tenant farmers and oral lessees.

3.13 During 2006-07 (July-March), 74 RRBs were sanctioned credit limits of Rs.2,497.23 crore under ST-SAO as against Rs.2,499.45 crore sanctioned during 2005-06 to 119 RRBs during the corresponding period of the previous year. Credit limits of Rs.2,505.46 crore were sanctioned during 2005-06 (July-June). The credit limits for 2006-07 included Rs.246.22 crore for OPP and Rs.61.10 crore for DTP (Chart 3.2). In the credit limits sanctioned, Andhra Pradesh, with an amount of Rs.566.96 crore, accounted for the largest share, followed by Karnataka (Rs.346.14 crore) and Kerala (Rs.323.94 crore). The maximum outstanding at the level of RRBs against sanctioned limits was Rs.2,363.79 crore during 2006-07 (including previous year's limits). The aggregate sanction of credit limits for ST-OSAO purposes to RRBs during 2006-07 (July-March) was at Rs.173.47 crore, as against Rs.255.95 crore during the corresponding period of the previous year.

Support for Marketing of Crops

3.14 NABARD continued to provide 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 to their produce in anticipation of better prices. During 2006-07, limits of Rs.29.50 crore and Rs.9.19 crore were sanctioned to co-operative banks in Gujarat and Karnataka, respectively, and limits of Rs.15 crore were sanctioned to RRBs in Karnataka.

B. Long-Term Loans to State Governments

3.15 NABARD continued to provide long-term loans to State Governments under Section 27 of the NABARD Act, 1981, for contributing to the share capital of co-operative credit institutions. During the year, however, the eligibility criteria and ceilings were revised. For SCBs/DCCBs, gross NPAs were not to exceed 20 per cent as on 31 March of the preceding year and sanction of loan assistance to State Governments in respect of SCBs/DCCBs not complying with the provisions of Section 11(1) of the B. R. Act, 1949 (AACS), were to be considered irrespective of deposit erosion, provided the SCB/DCCB has been granted exemption by GoI or the justification for exemption and the Action Plan of the bank concerned have been found acceptable and recommended by NABARD to RBI for favourable consideration of GoI. The SCB/DCCBs, which have not submitted exemption application within the stipulated time, duly recommended by the concerned State Government were not eligible for share capital contribution. The overall ceiling on share capital contribution by State Government for SCBs, DCCBs, PACS, FSS and LAMPS was stipulated at 25 and 50 per cent of the paid-up capital of the institutions that have accepted and have not accepted, respectively, the recommendations of the Task Force on revival of STCCS, with annual ceilings specified for each institution. For SCARDBs/PCARDBs it was stipulated at 50 per cent of the paid-up capital of the institution concerned. The interest was payable on half yearly basis as on 30 September and 31 March. An amount of Rs.15.75 crore was drawn during the year by State Governments of Haryana, Kerala, Orissa and Rajasthan.

C. Other Policy Initiatives

a. NABARD-GTZ Rural Finance Programme

3.16 Attempting a paradigm shift towards a 'family-centric approach' in lending, NABARD and GTZ have formulated a Grameen Tatkal Scheme aimed at assessing the entire credit needs of rural families, keeping in view their total income (cash flow) and also capacity to service debts. The scheme is to be implemented on a pilot basis in eight states, viz., Andhra Pradesh, Haryana, Karnataka, Maharashtra, Tamil Nadu, Punjab, Uttar Pradesh and West Bengal. NABARD will provide cent per cent refinance to banks for loans provided under this scheme.

b. Relief Package

3.17 In order to mitigate distress of farmers in 31 debt stressed districts of Andhra Pradesh, Karnataka, Kerala and Maharashtra, GoI has announced a relief package in respect of agricultural credit. The package envisages, (i) waiver of entire interest on overdue agricultural loans as on 1 July 2006 in the affected districts to farmers with no past interest dues as on that date so as to make them eligible for fresh loan from the banking system, (ii) reschedulement of overdue loans over a period of 3-5 years with one-year moratorium and (iii) ensuring additional credit flow through the banking sector. The burden of waiver of overdue interest on agricultural loans will be shared equally by the State and Central Governments. NABARD would settle the interest waiver claims of the banks in respect of 50 per cent share of GoI under the packages. NABARD has advised co-operative banks and RRBs operating in the identified districts to implement the package. In order to enable co-operative banks and RRBs to tide over the liquidity gap due to the implementation of the package for effecting conversion/reschedulement of farmers' dues at ground level in identified districts of these States, the Bank has decided to extend liquidity support to SCBs and RRBs by way of medium-term (MT) refinance. Liquidity support is available upto 50 per cent of the overdue crop loans

outstanding as on 1 July 2006 rescheduled as per the package.

c. Interest Relief to Farmers

3.18 The Union Budget 2006-07 envisaged grant of interest relief of two percentage points on the existing rate on a principal amount upto Rs.1 lakh of crop loans availed by the farmers during the *khari*f and *rabi* seasons of 2005-06 through commercial banks, co-operative banks and RRBs. The amount of the relief was required to be credited to the borrowers' account before 31 March 2006. Under the scheme, which was closed on 31 December 2006, NABARD had sanctioned Rs.500.65 crore in respect of claims received from co-operative banks and RRBs.

d. Package for Sugar Industry

3.19 A scheme for restructuring loans of sugar factories formulated by NABARD in consultation with State Governments, RBI and Indian Banks Association in pursuance of the Hon'ble Finance Minister's announcement in the Union Budget 2005-06, was approved by GoI for the co-operative sugar mills in the country. Under the package 78 mills (Maharashtra-75 and Gujarat-3) entered into MoU with members and banks for conversion of term loans of Rs.1,732.68 crore. GoI has committed to provide interest subvention of Rs.560 crore.

D. Interest Rates on Refinance Assistance

3.20 The rates of interest on ST/MT refinance to co-operative banks, RRBs and scheduled commercial banks and long-term (LT) loans to State Governments for contribution to share capital of co-operative credit institutions during 2006-07 have been indicated in Table 3.1.

3.21 As per the announcement in Union Budget 2006-07, to make available ground level credit at 7 per cent to farmers availing crop loan upto Rs.3 lakh for *khari*f 2006 and *rabi* 2006-07, NABARD extended refinance to co-operative banks and RRBs at 2.5 and 4.5 per cent p.a., respectively, with interest

B. Eligibility Criteria for Drawal of Refinance

3.23 The norms for drawal of refinance by various agencies under schematic lending for 2006-07 were revised. Gross/net NPAs or recovery to demand, net worth and profitability formed the basis for classifying banks into A and B categories. Co-operative banks and RRBs that did not fall under either category were required to prepare Rehabilitation/Business Development Plan for availing refinance from NABARD. Though the quantum of refinance for co-operative banks and RRBs was linked to risk perceptions, SCBs/SCARDBs were entitled for additional refinance to the extent of 10 per cent of their core eligibility on initiating reform measures. However, banks with perceptible improvement in gross/net NPA position (as on 31 March 2006) or recoveries (as on 30 June 2006), improved lendings, deposit mobilisation, diversification of loan portfolio and improved internal control systems, were eligible for higher quantum of refinance. Refinance support for Micro-Finance under the SHG-Bank linkage programme was extended without reckoning it towards the quantum of eligibility.

a. Co-operative Banks

3.24 State Co-operative Banks (SCBs) with gross NPAs \leq 15 per cent (\leq 25% in NER) as on 31 March 2005, positive net worth and in profits for the last three years (2002-05) were included under **Category A**, while SCBs with gross NPAs \leq 20 per cent (\leq 30% in NER) as on 31 March 2005, positive net worth and earning profits for the last two years (2003-05) were included under **Category B**. Relaxation in NPA level upto 5 per cent was allowed under both categories in the event of natural calamities. SCBs not included under either category and also not under rehabilitation were considered for refinance on their preparing a rehabilitation programme to NABARD's satisfaction. Refinance was given to SCBs under rehabilitation on the basis of the progress in implementation of the programme. SCBs not complying with Section 11 (1) of B. R. Act, 1949 (AACS), and with deposit erosion of more than 30 per cent were not considered eligible for refinance. However, DCCBs affiliated to such SCBs were

considered eligible if they had A or B class audit, operating profit during last three years (2002-05) and gross NPAs \leq 15 per cent as on 31 March 2005.

3.25 State Co-operative Agriculture and Rural Development Banks (SCARDBs) with recoveries \geq 70 per cent (\geq 60% in NER) as on 30 June 2005, positive net worth and earning profits for the last three years (2002-05) were included in **Category A** and those with recoveries \geq 50 per cent (\geq 40% in NER) as on 30 June 2005, positive net worth and earning profits for the last two years (2003-05) were included in **Category B**. Relaxation in recovery of 10 per cent was given in respect of banks in the NER, as also in the event of natural calamities. SCARDBs under neither category and also not under rehabilitation were considered for refinance on their furnishing a rehabilitation programme to NABARD's satisfaction as in the case of SCBs. SCARDBs that are already under rehabilitation were extended refinance on the basis of the progress in implementation of the programme. Based on the latest financial data of SCBs/SCARDBs, NABARD fixed a limit of core refinance for each category. Additional refinance was considered subject to undertaking of reform measures by the concerned bank.

b. Regional Rural Banks

3.26 RRBs with net NPAs \leq 8 per cent as on 31 March 2005, positive net worth and in profit during the past three years (2002-05) were included in **Category A**, while those with net NPAs \leq 10 per cent as on 31 March 2005, positive net worth and in profit for the last two years (2003-05) were included in **Category B**. Relaxation in NPA norms to the extent of 5 per cent was granted to RRBs in the NER and in areas affected by natural calamity during 2004-05. RRBs under rehabilitation were considered for refinance depending on the progress in implementation of the programme while those under neither category and also not under rehabilitation, were considered for refinance on their preparation of a realistic Business Development Plan to the satisfaction of NABARD. RRBs not complying with section 42 (6) (a) (i)

of RBI Act, 1934, and with deposit erosion exceeding 30 per cent were not considered eligible for refinance.

c. Commercial Banks

3.27 Commercial banks with net NPAs \leq 5 per cent as on 31 March 2005, positive net worth and in profit during the last three years (2002-05) were included in **Category A**, while those with net NPAs \leq 9 per cent as on 31 March 2005, positive net worth and in profit during the last two years (2003-05) were included in **Category B**.

d. Scheduled Primary Urban Co-operative Banks

3.28 Scheduled PUCBs with 'A' audit classification, net NPAs \leq 5 per cent as on 31 March 2005, in profit during last three years (2002-05) and no accumulated losses were considered eligible for refinance.

C. Refinance Support

3.29 As on 31 March 2007, the total refinance disbursed stood at Rs.8,795.02 crore as compared to the disbursement of Rs.8,622.37 crore during the previous year.

a. Agency-wise Disbursement

3.30 Commercial banks further consolidated their position as the single largest group availing refinance

with the highest share (52%) in total refinance disbursed during the year (Table 3.2/Chart 3.3). The share of co-operative banks (LT and ST structures) has further declined from 38 per cent during 2005-06 to 33 per cent during 2006-07, thus indicating a need for more diversification in investment lending.

Table 3.2: Agency-wise Refinance Disbursement

(Rs. crore)			
Agency	2004-05	2005-06	2006-07
SCARDBs	2,709.98	2,082.47	1,742.72
SCBs	1,243.92	1,173.72	1,130.67
Commercial Banks	2,569.56	4,027.74	4,568.82
RRBs	2,049.11	1,332.40	1,352.81
PUCBs/ADFCs	4.89	6.04	-
Total	8,577.46	8,622.37	8,795.02

b. Spatial Distribution of Refinance

3.31 Refinance disbursements varied widely across regions with the highest disbursement in the southern region, followed by northern, central, eastern and western regions (Table 3.3/Chart 3.4). Refinance disbursement in NER improved by 10 per cent during 2006-07 over the previous year. The share of southern region increased from 24 per cent during 2005-06 to 30.8 per cent during 2006-07, while that of NER remained almost stagnant.

3.32 Disaggregation of refinance disbursements by agencies and states reflect the varying absorptive

Table 3.3: Region-wise Refinance Disbursement

(Rs. crore)			
Region	2004-05	2005-06	2006-07
Central	2,095.32	2,306.95	1,695.62
Eastern	1,035.48	1,057.44	1,102.83
Northern	2,247.95	2,152.54	2,111.10
North-Eastern	218.71	147.41	167.87
Southern	2,192.26	2,065.40	2,710.62
Western	787.74	892.63	1,006.98
Total	8,577.46	8,622.37	8,795.02
<i>Central : Madhya Pradesh, Chhattisgarh, Uttar Pradesh and Uttarakhand.</i>			
<i>Eastern : Bihar, Jharkhand, Orissa, West Bengal and A&N Islands.</i>			
<i>Northern : Haryana, Himachal Pradesh, Punjab, Rajasthan, J&K, Delhi and Chandigarh.</i>			
<i>NER : Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura.</i>			
<i>Southern : Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, Pondicherry and Lakshadweep Islands.</i>			
<i>Western : Gujarat, Goa, Maharashtra, DN Haveli and Daman & Diu.</i>			

capacities of different categories of banks in different States. While 73 per cent of the disbursement to RRBs was in Andhra Pradesh, Karnataka, Orissa, Uttar Pradesh and West Bengal, 55 per cent refinance disbursed to SCBs was in Andhra Pradesh, Karnataka, Maharashtra and Punjab and 83 per cent of the refinance disbursed to SCARDBs was in Haryana, Karnataka, Kerala, Punjab, Rajasthan and Uttar Pradesh.

c. Sector-wise Disbursement

3.33 Of the total refinance disbursed during 2006-07, farm sector activities constituted a share of

54.8 per cent, the major being farm mechanisation (21.1%), minor irrigation with land development (15%) and animal husbandry (8.1%). Non-farm sector (NFS) including rural housing (25.8%), SHGs (14.7%) and other activities like storage and market yards, SGSY, SC-ST action plan, etc., accounted for the remaining share (4.7%) (Table 3.4).

i. Farm Sector

3.34 NABARD's initiatives in promoting Agri-Export Zones (AEZs) have shown progress over the years and have resulted in disbursement of Rs.142 crore as refinance during 2006-07.

3.35 The scheme for 'Financing Purchase of Land for Agriculture Purposes' under implementation since August 2001, aims at providing credit facility to small/marginal farmers, share croppers/ tenant farmers for purchase of land for agricultural purposes. During 2006-07, bank loan of Rs.45.02 crore for 1,571 units was disbursed and the refinance of Rs.38.47 crore for 1,502 units was provided. Andhra Pradesh, Haryana, Karnataka, Kerala, Punjab, Rajasthan and West Bengal together constitute a major share in the financing.

ii. Non-Farm Sector

3.36 Of the total refinance of Rs.2,265.16 crore disbursed under NFS during the year, Rs.1,087.63 crore was towards rural housing (48%). Agency-wise,

Table 3.4: Sector-wise Disbursement of Refinance

(Rs. crore)			
Sector	2004-05	2005-06	2006-07
MI	680.12 (7.9)	540.90 (6.3)	670.97 (7.6)
LD/DLF	291.28 (3.4)	637.22 (7.4)	651.30 (7.4)
FM	1,054.80 (12.3)	1,712.96 (19.9)	1,857.51 (21.1)
P&H	235.71 (2.8)	322.36 (3.7)	313.73 (3.6)
DD	754.11 (8.8)	694.72 (8.1)	504.02 (5.7)
PF/SGP/ AH-Others	361.57 (4.2)	231.53 (2.7)	206.66 (2.4)
Fisheries	25.63 (0.3)	38.49 (0.4)	38.30 (0.4)
Forestry	9.56 (0.1)	7.47 (0.1)	8.38 (0.1)
S & M Yard	32.91 (0.4)	52.49 (0.6)	35.61 (0.4)
SGSY	483.15 (5.6)	252.52 (2.9)	355.06 (4.0)
NFS	2,542.58 (29.6)	2,285.98 (26.5)	2,265.16 (25.8)
SC/ST-AP	79.62 (0.9)	69.90 (0.8)	28.32 (0.3)
SHG	967.76 (11.3)	1,067.72 (12.4)	1,292.86 (14.7)
Others [#]	1,058.66 (12.4)	708.11 (8.2)	567.14 (6.5)
Total	8,577.46 (100.0)	8,622.37 (100.0)	8,795.02 (100.0)
<i>MI: Minor Irrigation. LD: Land Development.</i> <i>FM: Farm Mechanisation. PF: Poultry Farming.</i> <i>DD: Dairy Development. AH: Animal Husbandry.</i> <i>DLF: Dry Land Farming. SGP: Sheep, Goat and Piggery.</i> <i>P & H: Plantation and Horticulture. AP : Action Plan</i> <i>S&M Yard: Storage and Market Yards.</i> <i># : Includes rural godowns and cold storages, two wheelers,</i> <i>homestead farming, contract farming, bullock-carts, biogas, etc.</i> <i>Figures in parentheses indicate percentage to total.</i>			

commercial banks accounted for the major share (43%), followed by co-operative banks (40%) and RRBs (17%). As on 31 March 2007, the cumulative refinance support under NFS stood at Rs.18,606.76 crore.

3.37 During the year, the schemes of NFS providing Automatic Refinance Facility (ARF) were reviewed and following changes were effected.

- The composite loan and integrated loan schemes were merged into Enterprise Loan Scheme.
- In the case of cottage and village industries, artisans, etc., the working capital is to include a component for consumption credit keeping in view the value of family labour in the production activity.
- The per unit limit for ARF was raised to Rs.50 lakh

for amalgamated RRBs. For non-amalgamated RRBs, the limit of Rs.20 lakh continued.

- Loans for purchase of second-hand vehicles were made eligible for refinance under Small Road and Water Transport Operations Scheme.
- For facilitating establishment of new enterprises by entrepreneurs having the requisite talents and traits of entrepreneurship, but lacking necessary monetary resources for meeting margin money requirements, loans upto Rs.5 lakh, subject to a maximum of 20 per cent of project outlay, were made available irrespective of refinance availed by the financing agency under the Scheme for Soft Loan Assistance of Margin Money.
- Repayment period for NFS refinance has been fixed at 2 to 10 years.

3.38 The Working Group on Rural Habitat constituted by NABARD approved a Model Sanitation Scheme, based on the model successfully implemented by Gram Vikas, an NGO in Orissa. The twin-structure, toilet with bathroom, costing around Rs.8,600 was recommended for bank finance, especially where watershed development/water conservation schemes are under implementation and/or where SHGs are well organised. NABARD's refinance for the scheme is available under ARF as part of rural housing.

3.39 Indian Oil Corporation has come forward for setting-up Kisan Seva Kendras for making available diesel/petro products and other facilities required by the farmers under one roof close to their doorstep at low cost, as also providing gainful employment opportunity to rural people. The banks were advised that the activity is eligible for NABARD refinance under ARF.

iii. Micro-Finance

3.40 During the year 6,86,408 SHGs were credit linked by the banking system taking the cumulative number of SHGs credit linked to 29,24,973 with loan disbursement and refinance support aggregating Rs.18,040.74 crore and Rs.5,446.49 crore, respectively, as on 31 March 2007. In addition to this 4,57,410

existing SHGs received repeat finance during the year as against 3,44,502 SHGs in the previous year. Banks extended loans of Rs.6,643.19 crore during 2006-07 as against Rs.4,499.09 crore during the previous year. NABARD provided refinance aggregating Rs.1,292.86 crore during 2006-07 for supporting 2,71,120 SHGs, as against refinance of Rs.1,067.72 crore covering 2,17,712 SHGs during the previous year. The programme has enabled around 409.5 lakh poor households in the country gain access to micro-finance from the formal banking system, registering a growth of 24.2 per cent over 2005-06.

3.41 In terms of participation of different financing agencies under the programme, co-operative banks increased their share in linkage from 13 per cent (31 March 2005) to 14 per cent (31 March 2007) while that of RRBs declined from 35 to 31 per cent. During the same period, the number of SHGs financed by commercial banks, co-operative banks and RRBs increased by 89, 95 and 61 per cent, respectively (Table 3.5).

d. Co-financing

3.42 During 2006-07, seven projects were sanctioned involving total financial outlay (TFO) of Rs.221.66 crore, bank loan of Rs.171.44 crore and NABARD's share of Rs.78.34 crore. During the year, an amount of Rs.35.69 crore was disbursed, taking the cumulative disbursement to Rs.45.49 crore.

3.43 As on 31 March 2007, 16 projects in the area of agro-processing, food-processing, bio-fuel, animal

husbandry, plantation and horticulture, wasteland development, controlled atmosphere unit, agricultural marketing complex and bio-fertilizer have been sanctioned for co-financing involving TFO of Rs.485.68 crore, bank loan of Rs.337.16 crore and NABARD's share of Rs.130.47 crore. Of the 16 projects sanctioned, four are in Maharashtra, three in Andhra Pradesh, two each in Punjab, Tamil Nadu and West Bengal and one each in Gujarat, Kerala and Karnataka.

e. Coverage of Small Farmers

3.44 During 2006-07, 66 per cent of the refinance (excluding refinance in respect of loans for farm mechanisation, storage and market yards, forestry, etc.) was against loans disbursed to small farmers (Table 3.6).

D. Capital Investment Subsidy Schemes

3.45 Various Capital Investment Subsidy (CIS) schemes of GoI, viz., (i) construction of cold storages, onion godowns and rural godowns, (ii) million shallow tubewell programme (MSTP), (iii) rain water harvesting scheme for SC/ST farmers, (iv) development/strengthening of agriculture marketing infrastructure, grading and standardisation, (v) commercial production units of organic inputs under National Project on Organic Farming, (vi) venture capital fund for dairy/poultry sectors and (vii) development of horticulture in Bihar, continued to be implemented during the year. In addition, subsidy was introduced during the year under the scheme for establishing ACABCs by agriculture graduates. As a

Table 3.5: Agency-wise SHG - Bank Linkage Programme: Cumulative Progress
(As on 31 March)

Agency	(Rs. crore)					
	SHGs Credit Linked			Bank Loan Disbursed		
	2005	2006	2007	2005	2006	2007
Commercial Banks	8,43,473(52)	11,88,076(53)	15,94,787 (55)	4,159.02(60)	6,987.70(61)	11,397.56(63)
RRBs	5,63,846(35)	7,40,024(33)	9,10,807 (31)	2,099.55(31)	3,322.15(29)	5,031.01(28)
Co-operative Banks	2,11,137(13)	3,10,194(14)	4,11,732(14)	639.89(9)	1,087.18(10)	1,597.05(9)
Others	-	271	7,647	-	0.52	15.12
Total	16,18,456	22,38,565	29,24,973	6,898.46	11,397.55	18,040.74

Figures in parentheses indicate percentages to total.

Table 3.6: Refinance disbursed to Small Farmers vis-à-vis Total Disbursements

(Rs. crore)			
Purpose	Total Disbursement	Disbursement to SFs	Assistance to SFs (% to total disbursement)
Minor Irrigation and Land Development	1,322.27	847.68	64
Diversified Purposes*	5,256.55	3,521.88	67
Total	6,578.82	4,369.56	66

*: Excludes refinance for farm mechanisation, storage and market yards, forestry, etc.

nodal agency, NABARD has been involved in overseeing the operationalisation of the schemes, monitoring the progress and administration of subsidy.

i. Cold Storages, Onion Godowns and Rural Godowns

3.46 The implementation period of schemes for cold storages/onion godowns and rural godowns was extended upto 31 March 2007. Certain modifications, viz., reduction in subsidy to entities other than farmers, i.e., traders, businessmen, etc., extension of subsidy to godowns of smaller size (upto 50 MT), restricting the State-wise ceiling for subsidy to 28 lakh MT, were introduced in the rural godowns scheme. Against the target of 12 lakh MT, 4.5 lakh MT and 140 lakh MT for cold storages, onion godowns and rural godowns, the capacity created was 59.13 lakh MT, 0.34 lakh MT and 147.73 lakh MT, respectively.

3.47 During the year, 188 and 2,385 projects were sanctioned under cold storages/onion godowns and rural godowns, involving TFO of Rs.380.95 crore and Rs.292.87 crore, bank loan of Rs.224.52 crore and Rs.185.11 crore and subsidy of Rs.70.45 crore and Rs.45.27 crore, respectively. As on 31 March 2007, 1,476 (1,274 cold storage and 202 onion godown) and 11,392 projects were sanctioned involving TFO of Rs.2,008.86 crore and Rs.2,307.74 crore, bank loan of Rs.1,084.70 crore and Rs.1,487.13 crore and subsidy of Rs.398.97 crore and Rs.446.46 crore under cold storage/onion godowns and rural godowns schemes, respectively.

ii. Million Shallow Tubewell Programme

3.48 With an aim of bringing in additional agricultural land under assured irrigation, Government of Bihar has been implementing the MSTP in 38 districts of the state since 2001-02. The implementation period of the programme was extended up to 31 March 2007. The programme is supported through bank credit, subsidy and margin from the beneficiary in the ratio 50:30:20. NABARD along with the concerned banks has been actively involved in the implementation of the programme. During the year 36,445 projects were sanctioned with bank loan of Rs.74.54 crore. As on 31 March 2007, Rs.1,110.90 crore and Rs.234.48 crore have been disbursed as bank loan and subsidy, respectively, covering 4,95,822 projects. An evaluation study of the programme conducted by NABARD revealed that apart from increase in cropping intensity (from 110 to 250%), there was substantial increase in yield due to assured irrigation and a shift in cropping pattern towards high value crops like potato, onion and vegetables.

iii. Water Harvesting Scheme for SC/ST Farmers

3.49 The scheme provides financial support to SC/ST farmers for creation of irrigation facilities in their homesteads/farm lands for which 50 per cent of the project cost is provided as back-ended subsidy by GoI and balance as bank loan. During the period 2004-07, 24,500 water harvesting structures were proposed to be supported. During the year 3,071 structures were financed involving TFO, bank loan and subsidy of Rs.9.36 crore, Rs.4.68 crore and Rs.4.68 crore,

respectively. As on 31 March 2007, 7,167 projects were sanctioned involving TFO, bank loan and subsidy of Rs.22.86 crore, Rs.11.43 crore and Rs.11.43 crore, respectively.

iv. Agricultural Marketing Infrastructure, Grading and Standardisation

3.50 The scheme aimed at establishing/strengthening of infrastructure for marketing, grading and standardisation and quality certification of agricultural produce is being implemented in States that have amended the APMC Act to allow private participation in agriculture marketing. As on 31 March 2007, 15 States and 5 UTs were eligible. Under the scheme, GoI assistance of Rs.175 crore would be available as back-ended subsidy. During the year 1,430 projects involving TFO of Rs.287.07 crore, bank loan of Rs.197.36 crore and subsidy of Rs.55.52 crore were sanctioned. As on 31 March 2007, 1,608 units involving TFO, bank loan and subsidy of Rs.324.12 crore, Rs.222.94 crore and Rs.63.66 crore, respectively, were sanctioned.

v. National Project on Organic Farming

3.51 The project was launched by Ministry of Agriculture (MoA), GoI for development of organic farming in the country. The scheme to be implemented during 2004-07, envisages back-ended subsidy upto 25 per cent of the project cost aggregating Rs.23 crore. Three types of projects, viz., (i) fruits/vegetables compost (35 units),



Vermi-compost unit

(ii) bio-fertilizer (30 units) and (iii) vermiculture hatchery (200 units) with maximum per unit subsidy of Rs.40 lakh, Rs.20 lakh and Rs.1.50 lakh, respectively, are to be financed. NABARD was involved in preparation/ operationalisation/ monitoring of the projects and administration of subsidy. During 2006-07, 103 units were sanctioned involving TFO of Rs.14.54 crore, bank loan of Rs.7.27 crore and eligible subsidy Rs.3.64 crore, taking the cumulative number of units sanctioned to 126, involving TFO of Rs.17.30 crore, bank loan of Rs.8.65 crore and subsidy of Rs.4.33 crore.

vi. Venture Capital Fund for Dairy and Poultry Sectors

3.52 The scheme announced by MoA, GoI, for creation of a fund for providing venture capital for dairy and poultry sectors was implemented during the Tenth Plan period with a total RFA of Rs.25 crore. The fund was to be utilised for dairy and poultry activities in the ratio of 2:1 and assistance was available to individuals, NGOs, public and private sector undertakings, co-operatives, etc. Half of the project cost was available as interest free loan from the fund, 40 per cent as bank loan and balance 10 per cent as entrepreneur's contribution. NABARD is the nodal agency for operationalisation and monitoring of the scheme and administering the fund and banks were involved in implementation. During the year 1,877 units were sanctioned involving TFO of Rs.32.34 crore, bank loan of Rs.12.94 crore and interest free loan of Rs.16.02 crore. As on 31 March 2007, TFO, bank loan and interest free loan of Rs.56 crore, Rs.22.40 crore and Rs.28 crore, respectively, was sanctioned for 2,940 units.

vii. Development of Horticulture in Bihar

3.53 The scheme was introduced by GoI to further boost development of horticulture crops in four districts (litchi in Muzzafarpur, mango in Darbhanga, makhana in Madhubani and spices in Samastipur) of Bihar. This back-ended credit-linked subsidy scheme was implemented during the period 2005-07. During the year 3,154 units

involving TFO of Rs.8.76 crore, bank loan of Rs.7.28 crore and subsidy of Rs.2.19 crore were sanctioned. Cumulatively 4,534 units have been sanctioned involving TFO, bank loan and subsidy of Rs.12.35 crore, Rs.9.81 crore and Rs.3.08 crore, respectively.

viii. Establishing Agri-clinics and Agri-business Centres by Agriculture Graduates

3.54 To encourage provision of fee based extension services to farmers, MoA, GoI, announced the scheme for implementation during 2006-07 and the Eleventh Plan period. The scheme envisages capital subsidy upto 25 per cent of the TFO and full interest subsidy during first two years of the successful operation of the unit and regular repayment of the bank loan.

E. Investment and Scheme Specific Studies

3.55 During 2006-07, NABARD conducted 38 investment and 15 scheme specific studies covering investments under farm sector, NFS including rural housing and government sponsored schemes (rural godowns, OFWM, storage and market yards) in association with financing banks and nodal departments of State Governments to identify factors affecting smooth implementation of the schemes and ensure prompt corrective measures.

F. Interest Rates on Refinance

3.56 During 2006-07, interest rates on refinance under investment credit were revised twice and effected from 22 July and 27 November 2006, respectively. For all purposes, (including SHGs) in NER, Sikkim and Andaman & Nicobar Islands, interest rates of 6.5 and 7 per cent were charged for borrowings upto Rs.50,000 and above Rs.50,000, respectively. In other parts of the country, for loans to SHGs, interest rate of 7 per cent was charged to all agencies irrespective of the quantum of per capita loan (6.5% to SCBs/SCARDBs for per capita loan upto Rs.50,000). For all other purposes, interest on loans upto Rs.50,000 and above Rs.50,000 was charged at the rate of 7.5 and 8 per cent for

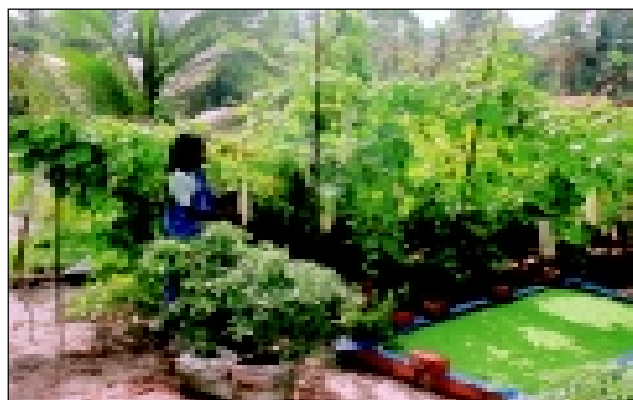
commercial banks/PUCBs/ADFCs/NEDFi, at 7.25 and 7.75 per cent for RRBs, and at 6.75 and 7.25 per cent for SCBs/SCARDBs, respectively.

G. Fixation of Unit Costs

3.57 The practice of fixing unit costs by the State Level Unit Cost Committee was dispensed with and banks were advised to assess the credit needs of the farmers on a case-by-case basis and provide loans accordingly.

H. Physical Achievements

3.58 A vast array of economic activities under various types of investments were supported with refinance disbursement aggregating Rs.8,795.02 crore during the year (Table 3.7). Under minor irrigation (MI) 44,000 tubewells with pumpsets and 39,000 pumpsets on existing wells were financed. Under other MI investments, Bihar constituted a substantial portion with 31,267 units financed under MSTP. Tractor financing was the major item of investment under FM with 55,000 units financed during the year. Area under P&H increased by 1.02 lakh ha. and 8 lakh ETPs were financed under forestry during 2006-07. Storage and market yards got a tremendous boost during the year with the financing of storage capacity of 16.17 lakh tonnes and 476 market yards as compared to the 6.30 lakh tonnes of storage capacity and 72 market yards financed in the previous year. The trend however, reversed in case of poultry from 48 lakh birds financed during 2005-06 to 20 lakh birds during 2006-07 mainly due to the attack of avian influenza. The NFS investments also made a quantum leap of 14.85 lakh units during the year.



Mixed Farm Household Unit operated by a SHG Member

**Table 3.7: Units Financed and Completed
(As on 31 March)**

Sr. No.	Investments	Units	Units financed		Units completed	
			2006	2007	2006	2007
1.	Minor Irrigation					
	i. Tubewells with Pumpsets @	'000	1,531	1,575	1,528	1,559
	ii. Dugwells with Pumpsets *	'000	2,059	2,072	2,058	2,061
	iii. Dugwells with conventional lifts	'000	1,707	1,707	1,706	1,706
	iv. Pumpsets on existing wells	'000	2,380	2,419	2,377	2,395
	v. Others **	'000	1,691	1,800	1,688	1,782
2.	Land Development***	'000 ha.	3,127	3,201	3,125	3,169
3.	Farm Mechanisation					
	i. Tractors	'000	1,278	1,333	1,276	1,320
	ii. Power tillers	'000	156	160	155	158
	iii. Other farm equipments	'000	648	694	645	687
4.	Plantation & Horticulture	'000 ha.	2,112	2,214	2,109	2,192
5.	Forestry	lakh ETPs	2,332	2,340	2,331	2,317
6.	Storage	'000 tonnes	17,015	18,632	17,011	18,446
7.	Market Yards	No.	2,087	2,563	2,086	2,537
8.	Dairy Development	'000 animals	15,440	15,647	15,437	15,491
9.	Sheep/Goat Rearing	'000 animals	37,044	37,880	37,040	37,501
10.	Piggery	'000 animals	1,674	1,686	1,669	1,680
11.	Poultry	lakh birds	1,782	1,802	1,780	1,784
12.	Fishery					
	i. Mechanised Boats	No.	21,930	22,259	21,925	22,036
	ii. Other Boats	No.	72,738	73,287	72,730	73,000
	iii. Brackish Water Aquaculture	ha.	5,217	5,355	5,215	5,301
	iv. Fresh Water Aquaculture	'000 ha.	358	411	356	407
13.	Non-Farm Sector	'000	6,347	7,832	6,337	7,754
14.	Miscellaneous [§]	'000	13,641	14,280	13,624	14,137
<p>@ : Includes borewells with pumpsets. * : Includes dug-cum-borewells with pumpsets. ETPs : Entire Trans-Planting. ** : Includes dugwells/ dugwells-cum-borewells, deep tubewells with pumpsets, deepening/ renovation of wells, sprinkler, pipeline, storage/ water harvesting tank, rectification of pumpset, lift/drip irrigation, pump house, shallow tubewells/ million shallow tubewell programme, etc. *** : Includes soil conservation, saline/ alkaline soil, channels/ lining/ under ground pipeline, wasteland and farm development. § : Includes bullock pairs, bullock carts, camels, camel carts, SHGs, other activities under AH, Kisan bikes, sericulture, ACABCs, soil/ water testing, compost/ manure plants, gobar gas plants, vermiculture, SRTO, contract farming, AEZs, SC/ST Action Plan, bee-keeping, etc. Note : While estimating the completed units, appropriate adjustments have been made for units financed upto March 2007, but not likely to have been completed. It is possible that some of the units have turned out to be infructuous or remained incomplete beyond their normal gestation period.</p>						

I. Credit Planning

a. Potential Linked Credit Plan

3.59 The entire credit planning process has undergone major change as a sequel to the RBI's policy decision

to make the district level Potential Linked Credit Plans (PLPs) prepared by NABARD as the basis for the preparation of District Credit Plans (DCPs) from 2006-07. The guidelines for preparation of PLPs were thoroughly revisited with emphasis on quality improvement.

Capacity building and imparting training on the new process starting from pre-PLP meetings up to the dovetailing of PLP estimates with DCP in each district to all concerned, enabled the Bank to successfully ground the new planning process for 2006-07 within a stipulated time schedule. By and large, projections of the PLPs have been adopted as the basis for DCP by the banks as revealed from the macro level, where the deviation of DCP projections from the PLP estimates was only around 4 per cent.

3.60 The PLP document is looked upon by various organisations as a source of valuable information and is being used by banks, government officials, corporates, academic institutions, consultants, private companies, etc. Keeping this in view, efforts were made to improve the quality and content of this document. Some of the initiatives taken towards this are:

- i. A separate Chapter covering 'Agro and Food Processing Sector', has been incorporated to depict the prevailing opportunities and challenges/constraints and to direct the flow of credit to the sector.
- ii. The Chapter on 'Infrastructure Support' has been further refined to highlight the status of infrastructure development, to identify the critical gaps in infrastructure and linkages that need to be addressed on a priority basis including prioritisation of projects for RIDF assistance.
- iii. The Chapter on 'Farmers' Responses' was introduced in 2005-06 keeping in view the current ground level situation pertaining to farmers' issues, distress situations, etc., in which emphasis is given to elicit views/expectations of farmers on matters relating to credit/non-credit services as also constraints faced by the farmers so as to facilitate appropriate follow-up action by the concerned agencies.

b. State Focus Paper

3.61 The district-wise/sector-wise potentials projected in the PLPs are aggregated into a State Focus Paper

(SFP) highlighting a comprehensive picture of potentials available in the State for development of agriculture, allied and non-farm sector activities and also the major critical gaps in infrastructure and linkages needing priority attention. The SFP is presented to the State Government and the Bankers in the State Credit Seminar organised by NABARD ROs, well before the State's budget, highlighting the initiatives needed from the State Government for infrastructure support services to enable financing institutions to facilitate adequate credit flow to different sectors. With a view to drawing focussed attention to extension services, a separate Chapter on 'Agriculture and Other Extension Support Services' has been introduced in the SFP.

c. Review of SAMIS

3.62 Reserve Bank of India while dispensing with the restrictive provisions of Service Area Approach (except for Government sponsored schemes), requested NABARD to review and recommend modifications in Service Area Monitoring and Information System (SAMIS). A Working Group to review SAMIS was constituted at the instance of RBI, with representatives from RBI, NABARD, IBA and nine commercial banks. The Group suggested certain modifications in content, process and periodicity of the returns and also modified Lead Bank Return formats. The recommendations of the Group have been forwarded to RBI for consideration and to its member banks for a trial run. RBI has been requested to provide BSR Codes for the activities in the revised SAMIS to facilitate integration into the internal MIS of banks for error-free and timely generation of requisite data. Further, at the instance of RBI, a Group under the Chairmanship of Dr. K.G. Karmakar, Managing Director, NABARD with CGM, RPCD, RBI and representatives from IBA/SBI as members has been constituted to look into the issue of convergence of SAMIS with the Priority Sector Returns of RBI so that a single comprehensive MIS is put in place to meet the information requirement of all agencies, including RBI.

J. Special Package for NER

3.63 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 areas. The salient features of the policy followed during 2006-07 have been highlighted below.

3.64 In tune with GoI's decision to ensure provision of ST credit to farmers at an interest rate of 7 per cent p.a. for loan upto Rs.3 lakh per borrower, NABARD refinance was made available to SCBs and RRBs which have agreed to extend loans at 7 per cent to farmers in NER at 2.5 and 4.5 per cent, respectively, with interest subvention from GoI.

3.65 With a view to increasing GLC flow, the eligibility criteria for banks to avail of refinance under investment credit were relaxed. NPA norms were relaxed by 5 and 10 per cent for RRBs and SCBs, respectively, while for SCARDBs 10 per cent relaxation in recovery performance was extended. The rate of interest on refinance for eligible purposes in NER and Sikkim were fixed at rates lower than in other parts of the country (Table 3.8).

Table 3.8: Refinance Rates		
(Per cent)		
Agency	Loan Amount	
	Upto Rs.50,000	Above Rs.50,000
Commercial Banks	6.50 (7.5)	7.00 (8.00)
Co-operative Banks	6.50(6.75)	7.00 (7.25)
RRBs	6.50 (7.25)	7.00 (7.75)

Figures in parentheses indicate all India interest rates on refinance.

Loans under Rural Infrastructure Development Fund

3.69 The Rural Infrastructure Development Fund (RIDF) was set up in NABARD during 1995-96 with an initial corpus of Rs.2,000 crore. The Fund has since been strengthened with allocation being announced every year in the Union Budget. The XII tranche for RIDF was announced in the Union Budget 2006-07 with an allocation of Rs.10,000 crore raising the aggregate allocation to Rs.60,000 crore.

3.66 The Committee on Financial Sector Plan for NER constituted by RBI (Chairperson: Smt. Usha Thorat, Deputy Governor, RBI) in order to improve provision of financial services in the region and also to prepare appropriate state-specific monitorable action plan, submitted its report in July 2006. NABARD is actively involved in the implementation of the recommendations of the Committee related to, (i) real sector plan and (ii) financial inclusion. Workshops have been conducted in all the States to create awareness of the plan among major stake holders including banks.

3.67 The Pilot scheme through People's Participation introduced during 2003-04 and being implemented through SBI for accelerating the flow of credit by routing it through Village Development Boards (VDBs) in Nagaland continued during 2006-07 as well. As on 31 March 2007, as against 25 VDBs identified for implementation of the Scheme, 19 have availed of loans amounting to Rs.38 lakh. The process of identifying other banks as partners is in progress.

3.68 In pursuance of the MoU entered into with Tata Tea Ltd. during 2005-06 for development of Boro design through training of Boro women in Tata Tea Industrial Training Institutes, Rowta, NABARD has sanctioned two Skill Development Programmes during 2006-07 for imparting training in new designs and usage of improved looms. Sixty Boro women were trained through the programmes. A Training-cum-Production Centre was sanctioned during the year as per the MoU.

3.70 In pursuance to the announcement made by the Hon'ble Union Finance Minister that a separate window would be opened under RIDF XII for funding the rural road component of Bharat Nirman programme with an allocation of Rs.4,000 crore during 2006-07, modalities for sanction and release of funds were finalised. National Rural Roads Development Agency (NRRDA), a society registered under the Society's Act, 1860, working under

the Ministry of Rural Development (MoRD), has been identified as a nodal agency, which will borrow from NABARD for the purpose. A loan of Rs.4,000 crore was sanctioned to NRRDA. For want of suitable amendment in the Central Road Funds Act, the Tripartite Agreement to be entered into covering the technical, financial and legal aspects of the relationship among NABARD, NRRDA and MoRD, is pending for execution and NRRDA is yet to draw funds out of the loan sanctioned. According to the announcement made by the Hon'ble Union Finance Minister in the Union Budget 2007-08, this separate window with an allocation of Rs.4,000 crore would continue under RIDF XIII as well.

A. Prioritisation of Projects

3.71 Thirty-one broad sectors/activities approved by Gol for financing under RIDF XII were for projects relating to rural roads and bridges, micro/minor/medium/major irrigation, community irrigation wells, mini/small hydel projects, drinking water, soil conservation, watershed development, reclamation of waterlogged areas, drainage, flood protection, forest development, market yards, godowns, apna mandi, rural haats and other marketing infrastructure, cold storages (public or joint sectors) at various exit points, seed/agriculture/horticulture farms, plantation and horticulture, grading and testing/certifying laboratories, fishing harbour/jetties, riverine fisheries, animal husbandry, modern abattoirs, infrastructure for rural education and public health institutions (including mobile health clinics), construction of toilet blocks in existing schools, 'Pay and Use' toilets in rural areas, rural knowledge centres, desalination plants in coastal areas, infrastructure for Information Technology in rural areas and construction of Anganwadi Centres.

B. Terms and Conditions

3.72 The terms and conditions applicable for sanction of loans for rural infrastructure projects under RIDF XII, remained the same as under RIDF XI. The lending rate on loans extended to State Governments under RIDF XII continued to be linked to the bank rate, i.e., at 0.5 per cent above the rate prevailing at the time of sanction of loan. Loans are secured by means of

irrevocable letters of authority (mandate) executed by State Governments and registered with RBI and their Time Promissory Notes.

C. Operations

a. Sanctions and Disbursements

3.73 During the year 42,317 projects involving a loan amount of Rs.10,555.36 crore were sanctioned under RIDF XII, enhancing the cumulative number of projects to 2,44,025 and amount sanctioned to Rs.61,539.87 crore. Of the total amount sanctioned during the year, rural road and bridge projects accounted for 38.2 per cent, irrigation projects 30.1 per cent, social sector projects 18.7 per cent and others 13.0 per cent (Table 3.9). The cumulative position of sector-wise sanctions and disbursements is given in Table 3.10.

3.74 The period of implementation of projects sanctioned under RIDF V was over as at end-June 2006. However, for projects sanctioned under RIDF VI to IX, the implementation period was extended upto 31 March 2007 to enable State Governments to complete on-going projects and avail reimbursement of expenditure incurred thereagainst.

3.75 During the year, disbursements were made to the tune of Rs.6,222.58 crore. As per the phasing of projects under various tranches (RIDF I to XII), the total amount sanctioned was Rs.52,579.19 crore against which disbursements aggregated Rs.37,559.92 crore (Table 3.11). Nine States (Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal) accounted for 71 per cent of total disbursements and 69 per cent of total sanctions as on 31 March 2007. The state-wise analysis of ratio of disbursements to the approved phasing of sanctions reveals that Sikkim topped with 92 per cent, followed by Mizoram (90%), Himachal Pradesh and Jammu & Kashmir (83%), Meghalaya (81%), Gujarat (80%), Maharashtra and Haryana (77%), Punjab (76%), Rajasthan, Uttar Pradesh and Tamil Nadu (75%),

**Table 3.9: Sector-wise Projects and Amount Sanctioned
(As on 31 March 2007)**

(Rs. crore)				
Sector	RIDF XII (2006-07)	Share (%)	RIDF I to XI (Total)	Share (%)
Irrigation				
No.	26,589	62.8	92,342	45.8
Amount	3,179.35	30.1	17,252.59	33.8
Rural Bridges				
No.	711	1.7	9,982	4.9
Amount	731.52	7.0	5,575.33	10.9
Rural Roads				
No.	6,477	15.3	49,143	24.4
Amount	3,295.49	31.2	17,537.35	34.5
Social Sector*				
No.	6,714	15.9	31,946	15.8
Amount	1,972.96	18.7	5,014.64	9.8
Power Sector**				
No.	2	0.0	725	0.4
Amount	13.26	0.1	1,420.34	2.8
Others***				
No.	1,824	4.3	17,570	8.7
Amount	1,362.78	12.9	4,184.26	8.2
Total				
No.	42,317	100.0	2,01,708	100.0
Amount	10,555.36	100.0	50,984.51	100.0
* : Includes projects relating to Rural Drinking Water Supply, Primary/ Secondary Schools, Public Health Institutions, Pay and Use Toilets and Anganwadi Centres.				
** : Power includes projects relating to System Improvement in Power Sector and Mini/Small Hydel projects.				
*** : Includes Soil Conservation, Watershed Development, Rain Water Harvesting, Flood Protection, CADA, Drainage, Cold Storages, Fishing Harbour/Jetties, Riverine Fisheries, Animal Husbandry, Forest Development, Inland Waterways, Rubber Plantations, Seed/Agri./Horti. Farms, Citizen Information Centres, Food Park, Rural Libraries, Rural Markets/Market Yard/Rural Godown, Meat Processing, Rural Knowledge Centres, etc.				

Nagaland and Uttarakhand (74%), Karnataka (73%), Chhattisgarh and Kerala (72%) and Madhya

Pradesh (71%). Slow pace of utilisation of loans under RIDF when compared to the sanctions was mainly due to delay in administrative and technical approval by the State Governments, land acquisition problems, delay in obtaining statutory clearances and tendering process, inadequate budgetary support at State level, lack of coordination among implementing departments, etc.

3.76 The amount of loan sanctioned and disbursed to States in the NER aggregated Rs.671.10 crore and Rs.302.55 crore, respectively, during 2006-07.

3.77 The Union Budget 2006-07 had proposed to allow implementation of specific projects covered under RIDF under the public-private participation (PPP) model. A quick study conducted by NABARD as also the studies by State Governments assessed the potential and market for supporting projects under the PPP model. Based on the study results/feedback received and in consultation with GoI and RBI, NABARD is in the process of encouraging partnerships and network relations to bring about private sector competence and funds into the realm of rural infrastructure.

b. Deposits/Repayments

3.78 With the receipt of Rs.6,966.43 crore deposits from commercial banks during the year, the cumulative deposits received under RIDF stood at Rs.35,716.33 crore (Table 3.12).

3.79 An amount of Rs.2,697.62 crore was received from State Governments towards repayment of RIDF loans during 2006-07.

**Table 3.10: Sanctions and Disbursements under various Sectors
(As on 31 March 2007)**

(Rs. crore)				
Sector	Amount Sanctioned	Amount Phased	Amount Disbursed	% Disbursement*
Irrigation	20,431.95	17,552.46	12,752.13	72.6
Rural Roads & Bridges	27,139.68	23,783.14	18,011.44	75.7
Social Sector	6,987.60	5,431.91	3,039.05	55.9
Power	1,433.60	1,380.80	931.86	67.5
Others	5,547.04	4,430.88	2,825.44	63.8
Total	61,539.87	52,579.19	37,559.92	71.4
*: With amount phased.				

**Table 3.11: Cumulative Sanctions and Disbursements under different Tranches
(As on 31 March 2007)**

							(Rs. crore)
RIDF Tranche	Corpus	No. of Projects	Amount			% of Disbursement [@]	
			Sanctioned	Phased	Disbursed		
I	2,000	4,168	1,906.21	1,906.21	1,760.87	92.4	
II	2,500	8,193	2,636.08	2,636.08	2,397.95	91.0	
III	2,500	14,345	2,732.69	2,732.69	2,453.50	89.8	
IV	3,000	6,171	2,902.55	2,902.55	2,482.00	85.5	
V	3,500	12,234*	3,472.40	3,472.40	3,054.96	88.0	
VI	4,500	43,295	4,503.53	4,503.53	3,956.95	87.9	
VII	5,000	24,781	4,624.72	4,624.72	3,947.28	85.4	
VIII	5,500	20,968	5,987.26	5,987.26	4,770.28	79.7	
IX	5,500	19,595	5,592.96	5,592.96	4,007.75	71.7	
X	8,000	17,524**	8,117.03	8,117.03	4,732.10	58.3	
XI	8,000	30,434	8,509.08	6,820.92	2,455.59	36.0	
XII	10,000	42,317	10,555.36	3,282.84	1,540.69	46.9	
Total	60,000	2,44,025	61,539.87	52,579.19	37,559.92	71.4	

*: One lakh STWs sanctioned to Government of Assam treated as single project. @ : With phased amount.
 **: 42,616 Construction of Primary School structures sanctioned to Madhya Pradesh Government converted to 213 projects.

D. Employment Generation

3.80 It is expected that the projects sanctioned under RIDF on implementation will facilitate expansion of the production base in rural areas and creation of additional employment opportunities (Box 3.1).

E. Monitoring of RIDF Projects

3.81 Systematic monitoring of RIDF projects had become imperative not only to ensure proper

implementation and timely completion but also to improve the quality of assets created. Though the primary responsibility of monitoring falls on the State Government, NABARD undertakes it by exception. This two-pronged monitoring mechanism results in better implementation of RIDF projects as various factors inhibiting the progress are monitored at regular intervals. Guidelines for monitoring were revised after rationalising the norms for better compliance and improvement in implementation of projects.

Table 3.12: Year/Tranche-wise Disbursements and Deposits received under RIDF

						(Rs. crore)
Year	Deposits	Disbursements	RIDF Tranche	Deposits	Disbursements	
1995-96	350.00	387.34	I	1,586.56	1,760.87	
1996-97	1,042.30	1,087.08	II	2,225.00	2,397.95	
1997-98	1,007.04	1,009.03	III	2,308.02	2,453.50	
1998-99	1,337.95	1,313.12	IV	1,412.53	2,482.00	
1999-00	2,306.63	2,277.87	V	3,051.88	3,054.96	
2000-01	2,653.64	3,176.85	VI	3,912.03	3,956.95	
2001-02	3,590.72	3,790.37	VII	3,898.63	3,947.28	
2002-03	3,857.09	4,103.42	VIII	4,790.63	4,770.28	
2003-04	2,158.69	3,922.09	IX	3,933.82	4,007.75	
2004-05	4,353.47	4,316.85	X	7,729.11	4,732.10	
2005-06	6,092.37	5,953.32	XI	2,522.01	2,455.59	
2006-07	6,966.43	6,222.58	XII	1,346.12	1,540.69	
Total	35,716.33	37,559.92		35,716.33	37,559.92	

Box 3.1**Accretion to Rural Infrastructure and Employment**

(lakh)

Rural Infrastructure

Additional irrigation potential	117.84 ha.
Rural road network	2.25 km.
Rural bridges	4.03 mt.

Generation of Employment

Due to increased irrigation	
- Recurring (jobs)	64.16
- Non-recurring (persondays)	17,360
From non-irrigation projects-	
Non-recurring (persondays)	32,785

a. In-house Monitoring

3.82 NABARD carries out monitoring of projects through desk review of periodic returns and field visits undertaken by its officers from ROs/DDMs, HO and consultants appointed by the Bank for the purpose. During the year 6,372 projects were monitored through field visits. Major observations/issues were taken up with the implementing departments of the concerned State Government for initiating the necessary action so as to improve the pace and quality of implementation of these projects.

b. Monitoring Studies - Feedback

3.83 A study on rural bridges in Nandurbar district of Maharashtra revealed that the benefits, such as improvement in all weather connectivity, quicker and assured transportation from farms to marketing centres, improvement in self-employment due to maxi cabs and similar cabs for transport from main road to nearby villages, saving in time and operational cost of vehicles have accrued from the construction of rural bridges. This also helped the students/unemployed youths and job seekers in accessing nearby townships for higher studies/remunerative jobs, increase in demand for labour and consequent increase in wages resulting in reduction of poverty. The study revealed need for improvement in the system of testing materials/samples as per the prescribed frequency and avoiding/controlling cost and time overrun.

3.84 A study on Sutiapat medium irrigation project (Kabirdham district) and Champi irrigation project (Bilaspur district) in Chhattisgarh indicated slow

progress of work even after two years. The construction activity on earthen dam, link canal, left bank canal and concrete works (head sluice) as well as resettlement and rehabilitation plan need to be geared up. Continuous surveillance of Chief Engineer and periodical monitoring by senior officers of Water Resources Department was suggested to ensure smooth progress in implementation.

3.85 Some of the positive features revealed during the monitoring study of Ajoy Barrage in Deoghar district of Jharkhand were, adopting a foolproof system for inviting tenders, deciding contract agency of required competence and capacity, etc. There was a well knit monitoring system followed in the Department to ensure quality and timely completion. Some of the constraints identified in implementation of the project include acquisition of a large volume of land, social tensions and agitations during the process of land identification, the number of works allotted to a single contractor and delays in finalisation of designs and award of tenders.

3.86 In the case of Bhairawa medium irrigation project in Hazaribag district (Jharkhand), considerable cost escalation was observed in respect of land acquisition component due to high cost of land and payment towards loss of crop. Though land acquisition and rehabilitation works have been taken with right earnest, certain bottlenecks are required to be overcome in order to win the public confidence. The Water Resources Department took considerable time to award the contract on turnkey basis after sanction of the project,



Bridge constructed under RIDF in Kerala

3.87 A study of irrigation projects under Rani Sati Avantibai Lodhi Sagar, multi-purpose project, implemented by Narmada Valley Development Authority in Madhya Pradesh revealed a delay of 2 to 3 years in implementation of all the projects due to time lag in tendering process, delay in land acquisition, absence of proper layout/drawings at the time of award of work, lassitude of the contractor towards minor works under the projects, running of canal, etc. The cost overrun in these projects was around 12 per cent. The study suggested completion of land acquisition before award of work to the contractor and taking up of

works related to minors and small structures in the command area.

Economic Impact of Investments

3.88 NABARD continued its efforts in obtaining feedback on performance of various investment activities through evaluation studies. These studies are undertaken to assess the impact of investments on income, employment generation and also their viability. During 2006-07, eight ex-post evaluation studies covering farm and rural non-farm sector (RNFS) investment activities, SHG-Bank linkage programme and projects supported under RIDF were completed (Table 3.13).

Table 3.13: Benefits Derived from Diversified Investments

(Per unit)							
Sr. No.	Type of Investment	State/Reference Year	Capital Cost (Rs. lakh)	Net Incremental Income (Rs. lakh)	Additional Employment Generated (persondays per year)	FRR (%)	Recovery (%)
1. Non-Farm Sector							
1.1	Manufacturing Unit	Jharkhand / 2003-04	2.80	1.05	1,592	35*	68
1.2	Services Unit		1.15	0.46	284	>50*	78
1.3	Trade Unit		0.94	0.49	274	>50*	71
1.4	Manufacturing Unit	Rajasthan/2002-03	10.80	3.58	4,417	47	100
1.5	Small Business Unit		1.99	1.22	2,236	>50	26
1.6	Agro-based Unit		0.83	0.15	593	32@	Nil
1.7	Service Unit		3.85	0.43	691	24	100
2. Farm Sector							
2.1	Tea Gardens (1 ha. unit)	Tamil Nadu/2003-04	2.26	0.25	#	11	#
2.2	Poultry (Layers)	Rajasthan/2003-04					
a.	Small Unit (2,650 birds)		11.05	0.35+	636	<1	23
b.	Large Unit(15,860 birds)		57.96	11.85+	2,855	21	98
3. Infrastructure							
3.1	Rural Godowns (454 MT capacity)	West Bengal/ 2004-05	10.77	1.38	#	11**	
3.2	RIDF Investments	Haryana/2005-06					
a.	Rural Roads		230.76	75.37	83,000 ^{\$\$}	26 [§]	
b.	Rural Bridges		274.26	93.34	56,000 ^{\$\$}	31 [§]	
c.	Minor Irrigation						
i.	Shadipur		166.53	45.33	1,160	19 [§]	
ii.	Ramkali		558.88	123.48	2,790	16 [§]	
3.3	RIDF Investments	Uttar Pradesh/2004-05					
a.	Rural Roads		25.87	2.40	2,035	<15 ^{##}	
b.	Medium Irrigation		5,769.80	139.96	1,36,490	5 [§]	
c.	Flood Irrigation		306.40	96.86	1,57,821	36 [§]	
d.	State Tubewells		1.45	0.83	518	>50 [§]	
<p>FRR: Financial Rate of Return. §: Economic Rate of Return (ERR). \$\$: Non-recurring. #: Not available. ** : Without subsidy. *: Without imputing value of family labour. +: Figures pertain to 2002-03. ## : ERR for 4 out of 6 roads. @: Non-viable with inclusion of imputed value of family labour.</p> <p>Note: Loans to State Governments under RIDF are secured by irrevocable letter of authority, registered with RBI / principal banker to State Government for repayment of principal and/or payment of interest to NABARD.</p>							

a. Rural Non-Farm Sector Investments

3.89 Evaluation of RNFS activities in Bokaro and Dhanbad districts of Jharkhand revealed that the investments were viable and generated adequate net income and employment opportunities for the family and hired labour. The capacity utilisation of soap/candle making units was observed to be sub-optimal with poor quality of products, lack of experience in marketing and inadequacy of working capital. Inadequate working capital from the formal sector was one of the factors for the entrepreneurs' inclination to defer repayment of instalments and plough back sale proceeds towards product diversification. Sustained monitoring, follow-up and counselling by banks were suggested for upgrading skills for improving the quality of products and the repayment performance.

3.90 The study of manufacturing units (power looms, brick/plastic pipe making), small businesses, agro-based and service units (cycle repairing, tent house) in Bhilwara district of Rajasthan indicated that an investment of Rs.100 generated, on an average, annual net income of Rs.26 and employment opportunities for 9 persons per unit. Across the activities, manufacturing units generated higher employment (18 persons per unit), while it was minimum in the case of agro-based units (2.5 persons per unit). On the recovery front, borrowers of manufacturing and service units resorted to advance repayment. However, recovery was poor in the case of small businesses (26%) and agro-based units due to recurring droughts and inadequate/erratic power supply.

b. Farm Sector Investments

3.91 The study on tea production and processing units in Coimbatore and Nilgiri districts of Tamil Nadu observed that they were going through a difficult phase with declining productivity and prices in domestic and international markets. The cause for this decline was traced to the advanced age of the tea bushes (60 years) in the study area. The green tea leaf prices per kg. declined from Rs.18 during 1997-98 to Rs.6 during 2003-04. On the export front, India was being out priced by China, Kenya and Sri Lanka due to their low cost of production. Realisation of lower prices (Rs.43 per kg.) reduced the

margins of processors (Rs.5 per kg). The study suggested the need for replantation, promotion of JLGs of small tea growers to ensure their access to institutional credit, focused attention on marketing and promotion of innovative products, besides emphasis on R&D in production and processing of tea.

3.92 The study on poultry farms (layers with deep litter system) in Ajmer district of Rajasthan indicated that the viability of small as well as large units was affected due to reduction in prices. The prices of eggs and culled birds dropped to Rs.0.90 per egg and Rs.19.03 per bird (during 2003-04) from Rs.1.21 per egg and Rs.38.59 per bird, (during 2002-03), respectively. These problems lead to poor recovery (23%), especially in the case of small units.

c. Infrastructure Investments

3.93 The study on rural godowns supported under the CIS scheme of GoI in Malda and Nadia districts of West Bengal, revealed increase in net income of farmers on account of better price realisation after the storage rather than selling the crop output immediately after the harvest. The improvement in the income varied from 20 per cent for pulses to 50 per cent for paddy in Malda and 94 per cent for boro paddy in Nadia. The storage capacity was utilised to the extent of 86 per cent.

3.94 The evaluation of rural road and bridge projects supported under RIDF in Haryana revealed that improved connectivity resulted in a change in the cropping pattern in favour of vegetables and reduction in transport costs for farmers in the benefited areas. Rural NFS activities, viz., small road transport operators and trading also got



Dhableswar Bridge constructed under RIDF in Orissa

a boost in the post-project situation contributing significantly to the net incremental income. Accrual of intangible benefits such as improved access to education and health facilities was also observed in the sample villages. Of the sample beneficiaries, 80 per cent in the case of roads and 92 per cent in the case of bridges were 'willing to pay' up to Rs.1,000 annually for the maintenance of these projects. This shows that there is scope to cover a part of the maintenance cost by levying user charges. However, investments in four of the six rural roads in Gorakhpur, Jhansi and Moradabad districts of Uttar Pradesh, supported under RIDF, were found to be non-viable due to marginal changes in cropping pattern, yield and lesser traffic on account of lesser population density in the villages connected. Nevertheless, these roads were useful as the villagers were literally cut-off from the main centres during rainy season.

3.95 The completion of minor irrigation projects in Haryana led to changes in the cropping pattern towards high value crops and increased cropping intensity (18 to 21%). Increase in the water level of tubewells in the benefited area was also observed. Quantification and inclusion of such benefits would have further improved the economic viability. Optimum benefits were not accrued in the case of medium irrigation project supported under RIDF in Jhansi district of Uttar Pradesh, *inter alia*, due to non-completion of rehabilitation work and scanty rainfall, especially during the previous two years.

3.96 Evaluation of two flood protection projects supported under RIDF in Gorakhpur district of Uttar Pradesh, revealed that the investment yielded high ERR (36%) as it helped in reducing the fallow land from two-third to one-third of the operational area during *kharif* season. However, inadequacy of budget for maintenance of structures is likely to have an adverse effect on sustainability of the benefits.

3.97 The study on 'replacement of pumpsets and modernisation of distribution system on state tubewells' supported under RIDF in Moradabad and Gorakhpur districts (Uttar Pradesh) revealed that the investment was economically viable as it helped in improving

discharge (32%) of tubewells and increasing area under irrigation. In all the eight units, the ERR exceeded 50 per cent.

3.98 During the year, in addition to conducting in-house studies, NABARD outsourced two evaluation studies on RIDF (Box 3.2).

d. SHG-Bank Linkage Programme

3.99 As a part of the process of empowerment, the members of SHGs are expected to gradually become entrepreneurs and set up units which can generate sustainable income and employment. An impact evaluation study covering 310 members from 56 SHGs (which were at least three years old) in Chittoor,

Box 3.2

Evaluation of RIDF Projects - Feedback

Evaluation studies on minor irrigation projects in Madhya Pradesh and shallow tubewell projects in Assam revealed significant increase in cropping intensity during the post development period. While there has been a significant shift in the cropping pattern (from paddy to soyabean in *kharif* and wheat to gram in *rabi*) in Madhya Pradesh; in Assam though no visible change was observed in the cropping pattern, the area under vintage crops (summer and winter paddy, *kharif* and *rabi* vegetables, rapeseed and mustard) witnessed a rise.

In Assam people's participation was ensured in project implementation through village level institutions, i.e., Field Management Committees. The study in Madhya Pradesh revealed that farmers lacked affinity to Water Users' Associations as a social group *vis-à-vis* other social groups. Further, the state project authorities had not given due attention to on-farm-development works (outlets, watercourses, field channels, field drainage, tailend escape channels, etc.). In addition, delays in administrative approval, inadequate annual budget allocation, inefficiency of contractors, etc., further decelerated the implementation pace.

The poor state of rural electrification and hike in diesel prices by 61 per cent in last two years has had an adverse impact on the efficacy of tubewells. In Assam the study indicated that electrical connections, wherever feasible, need to be provided to enable operation of electrical motors as the prime movers. There is also an urgent need to encourage farmers to diversify towards cultivation of crop varieties having adequate margins and crops requiring less water for cultivation.



Income generating activity undertaken by a member of Mylaram SHG

Nizamabad and Warangal districts of Andhra Pradesh revealed that 70 per cent of the members had initiated/supported income generating activities (IGAs) but only 28 per cent of them had ventured into Micro- Enterprises (MEs). The latter implied an IGA by creating an asset with or without credit support. These enterprises were stand-alone or family owned MEs like dairy, pickle shop, flour mill, etc. Some of the SHG members (30%), however, had not initiated any IGAs/MEs and used the money solely for consumption purpose. Average loan amount availed by members with MEs, IGAs, and non-IGAs was Rs.24,089, Rs.17,171 and Rs.8,210, respectively. The net income accrued and the employment generated to the ME households were higher by 70 and 81 per cent, respectively, as compared to non-IGA households. Viability and sustainability of the MEs could be improved through strengthening of support systems for supply of raw material, technology upgradation, capacity building of entrepreneurs and marketing arrangements. The average recovery of 94 per cent at the member level, confirmed the success of SHG-Bank linkage programme in the study area.

e. Commodity Specific Studies

3.100 During the year, besides evaluation studies, Commodity Specific Studies (CSS) on cotton, grapes and potato were undertaken in select States to examine the entire supply chain management system, covering the economic features of the commodity in terms of productivity, production, cost of cultivation, net income, price behaviour, status of forward and backward linkages, demand absorption, processing, export-potential, etc.

i. Grapes

3.101 A study on grapes undertaken in Andhra Pradesh, Karnataka and Maharashtra, based on a sample of 172 entities in the supply chain including farmers, commission agents, exporters, wholesalers, retailers and raisins making units revealed that the investments in grape gardens were financially viable and exports were beneficial as the net margin was about Rs.40 per kg. The rejection of grape consignments by European countries during 2001-02, dampened the enthusiasm of farmers in Sangali district (Maharashtra) to export in the subsequent years. Some of the constraints identified in sustainability of grape exports were, inadequate training to the farmers on export oriented production, inadequate post harvest facilities and problems in contract farming like supply of poor quality pesticides. Long chain of intermediaries adversely affected the producers' share (31%) in consumer rupee in the domestic markets. The study suggested the need for evolving suitable insurance products for horticultural crops and motivating and supporting farmers with large size of holdings, who in turn can encourage their smaller counterparts to cultivate grapes and to promote contract farming under the supervision of Grape Growers' Association like MAHAGRAPE. The study also highlighted the need to re-examine the existing export credit facilities extended by banks.

ii. Cotton

3.102 A study on cotton conducted in Andhra Pradesh, Gujarat and Punjab covered 184 cotton growers, 10 market yards, 25 processing units and 17 bank branches. The study observed that per ha. cost of cultivation varied from Rs.13,380 to Rs.13,850 for the local variety, Rs.22,750 to Rs.30,925 for the hybrid variety and Rs.24,790 to Rs.27,640 for Bt. cotton. Lesser use of pesticides compensated the high cost of seed in the cultivation of Bt. cotton. The yield of Bt. cotton was almost double than that of the local variety and 13 per cent higher than the hybrid cotton. Per ha. net income from the activity ranged between Rs.6,110 for the local variety and Rs.20,970 for Bt. cotton. The study observed that commission agents occupied an

important role in the entire chain of backward and forward linkages. Of the total sample farmers covered, 76 per cent had access to institutional credit but only 17 per cent solely depended on formal sources for their credit needs.

3.103 At the farm level, producers were confronted with problems such as supply of spurious pesticides, non-availability of genuine seeds, inadequate extension services, ineffective risk mitigation mechanism, lack of awareness about product quality, etc. On the marketing front, the study illustrated the non-functioning of marketing committees, lack of uniformity in market fees, high level of product contamination and inadequate infrastructure, specially for packing, storing, etc. It underscores that ginning and pressing units in the study area were facing problems such as high market fees and commissions for procuring raw cotton, various taxes and cess by the government, higher electricity charge, non-availability of skilled labour, etc. These issues need to be looked into, if cultivation of cotton, especially Bt. and organic cotton which have adequate export potential, is to be promoted.

iii. Potato

3.104 A study on potato covering 324 farmers, 12 cold storages, processors and market yards was conducted in Bihar, Jammu & Kashmir, Madhya Pradesh, Uttar Pradesh and Uttarakhand. It was observed that the

productivity of potato has been rising over the years and was 17.2 MT/ha., marginally higher than the world average of 16.4 MT/ha. The cultivation of potato was found to be a gainful proposition with per ha. net income of Rs.24,282 in Udham Singh Nagar district (Uttarakhand) and Rs.6,942 in West Champaran district (Bihar). Though India ranks third in world production, its contribution in world potato trade is only 0.3 per cent. After meeting its domestic consumption requirements, it has a surplus of 5 million tonnes. Thus there is good scope for enhancing its existing share in the export market. The opportunities thrown open by non-availability of potato in the Northern hemisphere during January to March, a period during which fresh potato is available in plenty in India, also needs to be fully made use of. Further, in USA and some European countries, nearly 50 to 60 per cent of total potato production is processed, compared to only 0.3 per cent in India, thus, providing scope for processing and value addition. Some of the constraints being faced by potato growers were, non-availability of good quality seeds and refrigerated containers, prohibitive transportation (freight) charges, etc. The study suggested the need for increasing involvement of the private sector in multiplication of breeders' seed, processing and value addition twined with contract farming and appropriate legal/official intervention to ensure that certified seeds meet requisite disease tolerance limits, varietal purity and quarantine protocol.

NABARD Consultancy Services

3.105 NABARD Consultancy Services Pvt. Ltd. (Nabcons), a wholly owned subsidiary of NABARD, has established itself as a dependable and professional consultancy services provider in areas related to agriculture, rural development and allied activities and has contracted assignments covering various sectors/disciplines and clients, viz., GoI, State Governments, commercial banks, small entrepreneurs, etc. Nabcons has inked Memoranda of Understanding (MoU) with Punjab National Bank, Bank of India, Central Bank of India, Syndicate Bank, State Bank of Indore, Yes Bank,

National Institute of Agricultural Marketing (NIAM)-Jaipur, Small Farmers' Agri-business Consortium- New Delhi, GTZ International and Dee Chazaal De Mee (DCDM), Mauritius.

A. Management

3.106 The Board of Nabcons under the Chairmanship of Dr. K.G. Karmakar, Managing Director, NABARD comprises six directors. The affairs of the company are professionally managed by the Chief Executive Officer supported by a team of officers at HO. At the State

level, the Chief General Manager/Officer-in-Charge of the concerned NABARD, RO functions as the Principal Representative of Nabcons.

B. Progress

3.107 During the year, Nabcons contracted 175 assignments involving a consultancy fee of Rs.1,016.55 lakh and completed 154 assignments. Cumulatively, it has contracted 487 assignments involving consultancy fee of Rs.2,549.76 lakh (Table 3.14). The profit earned has increased from Rs.283 lakh during 2005-06 to Rs.299 lakh during 2006-07.

Table 3.14: Client Profile of Nabcons				
(Rs. lakh)				
Client Institution	Assignments			
	During 2006-07		Cumulative	
	No.	Amount	No.	Amount
Government of India	78	570.27	145	1,405.87
State Governments	21	230.31	63	498.20
International Organisations	4	35.66	34	158.29
Banks	4	18.67	29	62.72
Corporate Houses	40	141.53	95	316.52
Individuals	28	20.11	121	108.16
Total	175	1,016.55	487	2,549.76

C. Projects and Clientele

3.108 During 2006-07, Nabcons contracted 61 assignments related to preparation of project reports for various clients, viz., banks, corporate houses, private

entrepreneurs, GoI, State Governments and international agencies in areas like dairy developments, rural godowns, market yards, floriculture, seed processing unit, etc. involving a total fee of Rs.203.09 lakh. Ministry of Agriculture, GoI has sought the expertise of Nabcons in implementing the scheme for development/strengthening of agriculture marketing infrastructure, for generating awareness among banks, project report preparation and appraisal of projects received by banks for financing under the scheme.

3.109 Nabcons contracted 61 assignments for assessment of techno-economic feasibility of projects from commercial banks, individual entrepreneurs, corporate houses and State Governments and 22 assignments on monitoring and evaluation of projects for a fee of Rs.567.99 lakh. Rashtriya Sam Vikas Yojana, being implemented in 147 backward districts spread over 27 States is one of the major projects assigned by GoI for its monitoring. Other major assignments relate to impact assessment of projects assisted by Western Orissa Developmental Council, Ministry of Food Processing Industries, fisheries related and rural connectivity schemes.

3.110 During the year, Nabcons organised 18 capacity building programmes/exposure visits/ international visitors' programme involving a fee of Rs.58.28 lakh, for its clients from Development Bank of Ethiopia; NIAM, Jaipur; Meerut DCCB, etc.

Management of Resources

3.111 The financial resources of NABARD increased by Rs.13,615 crore during 2006-07 as against an increase of Rs.6,826 crore during 2005-06. The resources were augmented by issue of Corporate Bonds of Rs.10,895 crore and RIDF Deposits of Rs.6,966 crore. Repayment of RIDF Deposits and redemption of Bonds amounted to Rs.786 crore and Rs.2,820 crore, respectively. The funds deployed for supporting investment credit operations (including development of rural infrastructure) and loans to State Governments for contributing to the share capital of co-operative

credit institutions together increased by Rs.6,335 crore and the production and marketing credit increased by Rs.5,229 crore during 2006-07. The details on sources and uses of funds are given in Table 3.15 and 3.17, respectively.

Sources of Funds

A. Capital

3.112 The authorised capital of NABARD continued to be Rs.5,000 crore as also the paid up capital which

remained the same since 2001-02 at Rs.2,000 crore (Rs.550 crore subscribed by the GoI and Rs.1,450 crore by the RBI) as on 31 March 2007.

Table 3.15: Sources of Funds (As on 31 March)		
	(Rs. crore)	
Particulars	2006	2007
Capital, Reserves and Surplus	8,974 (13.5)	9,802 (12.1)
NRC (LTO) and (Stab.) Funds	14,705 (21.8)	14,747 (18.1)
Deposits, Bonds and Debentures	20,890 (30.9)	28,974 (35.7)
Borrowings from RBI-GLC	2,998 (4.4)	0 (0.0)
Borrowings from GoI	400 (0.6)	382 (0.5)
Borrowings from Commercial Banks	2,500 (3.7)	2,500 (3.1)
RIDF Deposits	13,975 (20.7)	20,155 (24.8)
Foreign Currency Loan	294 (0.4)	289 (0.3)
Other Liabilities/Funds	2,869 (4.2)	4,371 (5.4)
Total	67,605 (100.0)	81,220 (100.0)

Figures in parentheses indicate percentages to total.

B. Deposits

3.113 Deposits from tea, coffee and rubber companies outstanding as on 31 March 2007 aggregated Rs.81.38 crore. The deposits from GoI under the Special Loan Account for financing ineligible farmers under the Command Area Development Programme were repaid during the year. Similar deposits from State Governments outstanding under the programme amounted to Rs.77 lakh as on 31 March 2007.

3.114 During the year, NABARD received deposits from commercial banks aggregating Rs.6,966.43 crore under

RIDF V to XII. Repayments of Rs.786.10 crore were made to commercial banks under RIDF VI to IX upto 31 March 2007. Deposits outstanding under various tranches of RIDF as on 31 March 2007 were Rs.20,154.70 crore as against Rs.13,974.37 crore as on 31 March 2006.

C. Borrowings

3.115 Borrowings of NABARD as a percentage to working funds registered a significant increase from 19.33 as on 31 March 2003 to 39.58 as on 31 March 2007 (Table 3.16).

Table 3.16: Market Borrowings of NABARD (As on 31 March)		
	(Rs. crore)	
Year	Total Working Funds	Outstanding Market Borrowings *
2003	50,071	9,683 (19.3)
2004	55,889	15,306 (27.4)
2005	60,779	22,261 (36.6)
2006	67,605	24,084 (35.6)
2007	81,220	32,146 (39.6)

** : Includes deposits (excluding RIDF deposits), borrowings (excluding borrowings from RBI under GLC), bonds and foreign currency borrowings.
Figures in parentheses indicate percentages of outstanding market borrowing to total working funds.*

a. Bonds

3.116 Government of India has withdrawn the option available to NABARD for raising resources through issue of Capital Gains Bonds (CGBs), Tax Free Bonds and Priority Sector Bonds (PSBs) with effect from 1 April 2006. Consequently, the issue of Corporate Bonds has become major source of raising resources during 2006-07. During the year, NABARD obtained approval for raising resources by way of floating Bhavishya Nirman Bonds (Zero Coupon Bonds), through which an amount of Rs.3.99 crore was raised.

i. Capital Gains Bonds

3.117 During the year, CGBs involving an amount of Rs.973.89 crore were redeemed and the outstanding stood at Rs.8,190.77 crore at the weighted average cost of 5.32 per cent.

ii. Priority Sector and Corporate Bonds

3.118 During the year, PSBs worth Rs.455 crore were redeemed. Corporate bonds worth Rs.10,895 crore were issued while bonds worth Rs.1,275 crore were redeemed during 2006-07. The outstandings under PSBs and Corporate bonds stood at Rs.5,150.50 crore and Rs.13,953.80 crore, respectively, as on 31 March 2007.

iii. Tax Free Bonds

3.119 Tax Free Bonds worth Rs.1,000 crore continued to remain outstanding as on 31 March 2007.

iv. Statutory Liquidity Ratio (SLR) Bonds

3.120 While no SLR bonds were issued, bonds worth Rs.115.96 crore were redeemed during the year. The outstanding under SLR bonds aggregated Rs.592.84 crore as on 31 March 2007.

b. Funds from GoI

3.121 During the year, an amount of Rs.17.83 crore was repaid on maturity to GoI against the loans drawn earlier under various externally aided projects.

c. Corporate Borrowings

3.122 The amount outstanding under Corporate Borrowings aggregated Rs.2,500 crore.

d. Borrowings in Foreign Currency

3.123 The borrowings in foreign currency from KfW, Germany aggregated Rs.289.69 crore as on 31 March 2007. The foreign exchange risk on this loan as well as interest payments have been hedged at a cost of 1.02 per cent per annum for 10 years.

e. Borrowing under the General Line of Credit (GLC) from RBI

3.124 NABARD has been providing ST refinance to SCBs/RRBs for various purposes as per provisions of Section 21 of the NABARD Act, 1981, out of the GLC sanctioned to it every year by RBI. The activities covered

under such refinance included ST-SAO, other non-agricultural purposes, financing to weavers' co-operatives, etc. RBI had sanctioned an aggregate GLC limit of Rs.3,000 crore for the period April 2006 to January 2007. The entire outstanding amount was repaid to RBI on 31 January 2007.

Uses of Funds**A. Loans and Advances****a. Schematic Lending**

3.125 The amount outstanding under schematic lending, including subscriptions to Special Development Debentures of SCARDBs, was Rs.31,682.46 crore as on 31 March 2007 as against Rs.30,157.41 crore as on 31 March 2006.

**Table 3.17: Uses of Funds
(As on 31 March)**

Particulars	(Rs. crore)	
	2006	2007
Cash and Bank Balance	4,296 (6.4)	7,011 (8.6)
Investments in Government Securities and others	3,276 (4.8)	2,381 (3.0)
Production and Marketing Credit	9,617 (14.2)	14,758 (18.1)
Conversion of Production Credit to MT Loans	267 (0.4)	181 (0.2)
Liquidity Support	2,492 (3.7)	2,491 (3.1)
MT and LT Project Loans	30,158 (44.6)	31,683 (39.0)
LT Non-Project Loans	387 (0.6)	335 (0.4)
Loans out of RIDF	15,142 (22.4)	20,005 (24.6)
Fixed and other Assets	1,945 (2.9)	2,320 (2.9)
Co-finance Loans	9 (0.0)	42 (0.1)
Other Loans (including MT investment credit)	16 (0.0)	13 (0.0)
Total	67,605 (100.0)	81,220 (100.0)

Figures in parentheses indicate percentages to total.

b. ST, MT and MT (Conversion) Loan Assistance

3.126 The ST loans advanced for financing SAO to the SCBs (Rs.11,508.89 crore) and RRBs (Rs.2,778.31 crore) together with loans under NABARD Line of Credit to SCBs (Rs.106.90 crore) and other ST loans to SCBs (Rs.196.61 crore) and RRBs (Rs.166.85 crore) increased to Rs.14,757.56 crore as on 31 March 2007 from Rs.9,617.35 crore as on 31 March 2006.

3.127 The amount outstanding under MT investment non-project loans as on 31 March 2007 stood at Rs.0.19 crore. The amount outstanding under MT (conversion) loans as on 31 March 2007 stood at Rs.181.48 crore compared to Rs.267.02 crore as on 31 March 2006. The amount outstanding under the Liquidity Support Scheme for SCBs and RRBs aggregated Rs.2,490.60 crore as on 31 March 2007 as against Rs.2,491.80 crore as on 31 March 2006.

c. Loans to State Governments

i. Project Loans under RIDF

3.128 The project loans to State Governments under RIDF stood at Rs.20,004.83 crore as on 31 March 2007, compared to Rs.15,142.41 crore as on 31 March 2006.

ii. Non-Project Loans

3.129 The amount outstanding under the non-project LT loans to State Governments for contribution to the share capital of co-operative credit institutions, amounted to Rs.335.14 crore as on 31 March 2007, compared to Rs.387.49 crore as on 31 March 2006.

d. Other Loans

3.130 Other loans outstanding stood at Rs.13.20 crore as on 31 March 2007, which included amounts outstanding under various funds, viz., CDF, MFDEF and WDF.

B. Investment of Surplus Funds

3.131 NABARD deployed its ST surplus funds in ST deposits with commercial banks. During the year,

NABARD liquidated its ST deposits and G-sec investments to support its business operations. As on 31 March 2007, the total investments of the surplus funds of the Bank in ST deposits, money market instruments, Government securities, etc., aggregated Rs.9,203.14 crore.

C. Co-finance

3.132 The Bank has entered into agreements with commercial banks to co-finance various projects. The outstandings as on 31 March 2007 aggregated Rs.42.43 crore.

Income and Expenditure

3.133 The total income of NABARD during the year amounted to Rs.4,747.37 crore as against Rs.3,936.47 crore during the previous year. Out of this, a sum of Rs.313.53 crore has been provisionally earmarked towards payment of Income Tax and Fringe Benefit Tax (net of deferred tax asset), and Rs.410 crore has been contributed to Special Reserve in terms of Section 36 (1) (viii) of Income Tax Act, 1961. Of the remaining income, Rs.30 crore has been transferred to the NRC (LTO) Fund and Rs.10 crore has been transferred to the NRC (Stabilisation) Fund under Sections 42 and 43, respectively, of the NABARD Act, 1981.

3.134 Out of the balance income amounting to Rs.3,983.84 crore (Rs.3,132.24 crore in the previous year), after meeting the total expenditure of Rs.3,577.42 crore (Rs.2,764.98 crore during 2005-06), the surplus amounted to Rs.479.36 crore including withdrawals of Rs.72.94 crore from funds against expenditure debited to P&L account (Rs. 161.70 crore during 2005-06). The surplus has been transferred to CDF Rs.2.96 crore (Rs.6.07 during 2005-06); R & D Fund Rs.8.89 crore (Rs.6.01 crore in the previous year); Reserve Fund Rs.453.89 crore (Rs.503.25 crore during 2005-06) and Foreign Currency Risk Fund Rs.13.62 crore (Rs.13.62 crore in the previous year).