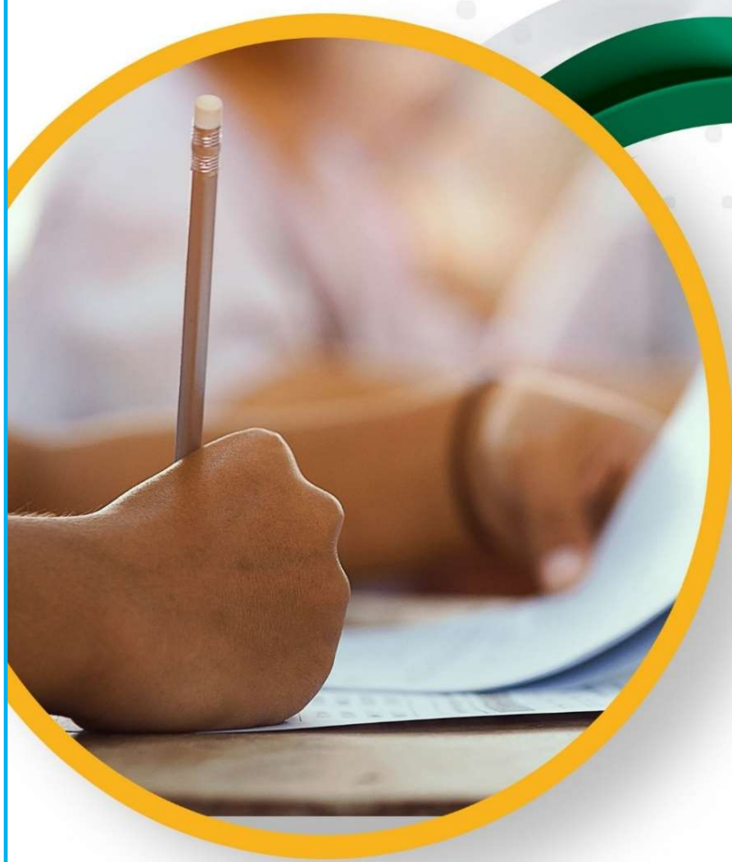
EduTap

SUMMARY SHEET



Financial Institutions

Table of Contents

1 Indian Financial System

The Indian Financial System refers to all institutions, structures, and services that provide pecuniary facilities to the public.

It makes possible trade and transfers of funds in a secure manner. India, being a democracy has independent pillars of the financial system especially in the areas of banking, capital and stock markets, insurance, liabilities, claims, transactions, and investments.

It is important for wealth creation and the economic development of the country.

1.1 Characteristics, Importance, and Functions of the Indian Financial System

- Issuing and gathering of deposits.
- Supply of loans from the collected pool of money.
- The undertaking of financial transactions.
- Boosting the growth of stock markets and other financial markets.
- Setting up the legal commercial substructure.
- Provision of monetary and consultative services.
- Permits portfolio adaptation for existing assets.
- Allotment of chance and risk.
- It forges a connection between depositors and investors.
- Boosts depth and breadth of finances by increasing its horizon.
- It is responsible for capital creation.
- Adds time value to assets and money.
- To set up an entire payment structure and system.
- Allocate and dissipate the economic resources.
- To maintain the economic stability in the country and the markets.
- To create markets that can judge the investment performance.

1.2 Components Of the Indian Financial System

1.2.1 Financial Institution

Their role is to mediate between the lender and the borrower.

The lender's savings are gathered through various commercial markets.

Financial Institutions have 2 major types:

These have 3 categories:

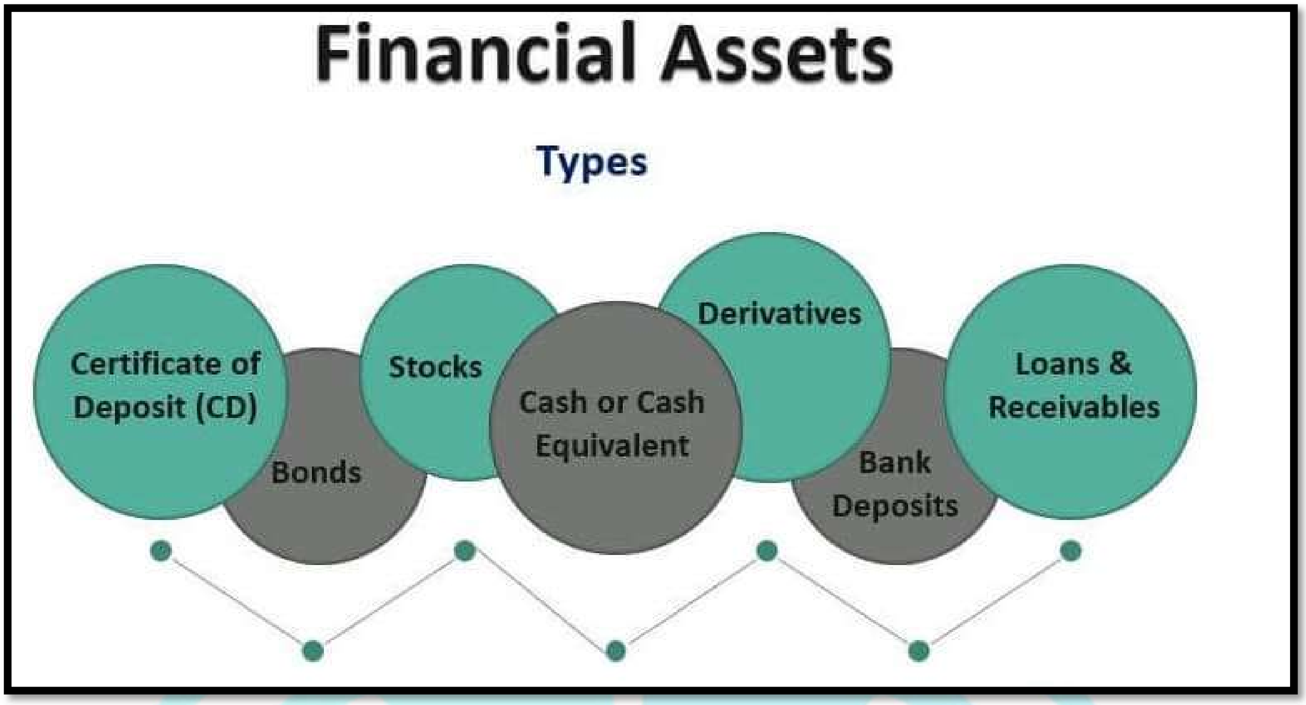
1. **Regulatory:** Those managements and institutions which regulate and overlook the commercial and financial market. Example – RBI, IRDA, SEBI, etc.
2. **Intermediates:** Those institutions which provide financial counseling and help by offering loans etc. Example – PNB, SBI, HDFC, BOB, Axis Bank.
3. **Non – Intermediates:** These institutions help corporate visitors with their finances. Examples – NABARD, SIDBI, etc.

1.2.2 Financial Assets

The objective of these is to provide convenient trade of securities in the commercial and financial market based on the requirements of those who seek credit.

These are the goods or products which are sold in the financial market.

Financial Assets include:



Already Discussed in Chapter Primary and Secondary Markets

1.2.3 Financial Services

The major objective of these is to provide counseling to their visitors regarding the purchase or selling of a property, permitting transactions, deals, lending, and investments.

These make sure the effectiveness of the investment and arrangement of the fund source too.

These are usually taken up by asset and liability management companies.

Financial services also include in them:

- **Banking Services:** Functions performed by a bank such as the provision of loans, accepting debits, giving out credit or debit cards, account opening, granting chequebooks, etc. are a part of these services.
- **Insurance Services:** These include services of offering insurance, selling policies, brokerage deals, etc.
- **Investment Services:** These services include overseeing and managing investments, assets, and deposits."
- **Foreign Exchange Services:** These include currency exchanges, foreign exchanges, and foreign fund transfers.

1.2.4 Financial Markets

The markets where trade and exchange of bonds, shares, money, investments, and assets take place between buyers and purchasers are these.

Already Discussed in Chapter Primary and Secondary Markets

1.2.5 Money

It is an important medium of exchange that can be used to purchase goods and services. It can also act as a store of value. It is uniformly accepted everywhere.

It eases transactions especially impromptu daily purchases. It makes the goods and services easily exchangeable. It acts as a verifiable record in the socio-economic context.

2 Financial Institution

In this chapter will discuss the important Financial Institution. The list of financial institutions that we shall be discussing in the chapter are

i. RBI
ii. Exim Bank
iii. NABARD
iv. National Housing Bank
v. SIDBI
vi. IRDAI
vii. SEBI
viii. IFSCA
ix. NaBFID
x. PFRDA

2.1 Reserve Bank of India

The topic is covered in very much detail in other chapter given later in the course.

As of now you can just see the below list to understand Functions of RBI. The same will be discussed in later detail in the course later in different chapter

2.2 EXIM BANK

Export-Import Bank of India is the premier export finance institution of the country that seeks to build value by integrating foreign trade and investment with the economic rise of India.

2.2.1 HISTORY

Established by the Government of India, the bank commenced operations in 1982 under the **Export-Import Bank of India Act, 1981** as a purveyor of export credit, mirroring global Export Credit Agencies. Exim Bank commenced its business operations in March 1982. It was set up for the purpose of financing, facilitating and promoting foreign trade in India.

Its objective is to create export capability by arranging competitive financing at various stages of the export cycle. Also, it is responsible for developing commercially viable relationships with a target set of externally oriented companies by offering them a comprehensive range of products and services, aimed at enhancing their internationalization efforts.

2.2.2 Organization Structure

The operations of the Bank are governed by a Board of Directors. The Board of Directors consists of a chairman, a managing director, two deputy managing directors; one director each nominated by the Reserve Bank of India; IDBI Bank Ltd. and ECGC Ltd.; and not more than 12 directors nominated by the Central Government of, whom 5 directors are Central Government officials; not more than 3 directors are from commercial banks; and up to 4 directors are professionals with experience in export / import or financing.

It is headquartered at Mumbai, Maharashtra.

2.2.3 Functions of Exim Bank

The following are the functions of Export Import bank:

1. Finance for exports and Imports: Exim bank helps by providing finance for exports and imports of goods as well as services from India.

2. Finance on deferred basis: Exim bank provides finance on deferred basis for importing capital equipment and other machinery.

3. Lease Finance: It provides lease finance for importing capital equipment. Under cross border leasing, the lesser may be in a foreign country, while the lessee will be in India.

4. Finance to export projects: Export projects in Third World countries are financed.

5. Line of credit: The Exim bank provides line of credit to foreign importers so that exports from India can increase. Under line of credit, Exim bank will provide finance to the Central bank of the borrowing country which in turn will provide to the commercial bank and ultimately the credit will reach the importer.

6. Refinance in foreign exchange: The Exim bank obtains bulk loan in foreign currencies in the foreign exchange market and provides refinance to the financial institutions, providing export finance.

7. Contribution to Equity fund: The Exim bank also contributes to the shares, debentures of Indian companies involved in exports.

8. Consultancy Services: The Exim bank also provides technical, administrative and other assistance to exporters. Export projects are analyzed by the Exim bank from the point of view of technical, managerial, marketing and financial feasibility.

Apart from the above assistance, it is also providing **discounting facilities for export bills.**

2.2.4 Recent Developments

There is a good chance that question asked from this chapter is based on current affairs, so please read the FM current affairs part in your course. All the relevant current affairs would be covered there

2.2.5 FAQ about EXIM Bank

Is Exim bank regulated by RBI?

Yes, it is regulated by RBI. The Bank primarily lends for exports from India including supporting overseas buyers and Indian suppliers for export of developmental and infrastructure projects, equipment, goods and services from India.

Who owns EXIM bank?

Exim Bank is fully owned by the Government of India.

2.3 NABARD

It is an apex level development financial institution set up for providing and regulating credit and other facilities for the promotion and development of agriculture, small- scale industries, cottage and village industries, handicrafts and other rural crafts, and other allied economics activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas.

2.3.1 History:

NABARD was established on the recommendations of **B. Sivaraman Committee**, (by Act 61, 1981 of Parliament) on 12 July 1982 to implement the National Bank for Agriculture and Rural 1981 Development Act with initial corpus of Rs 100 crore.

NABARD took over the functions of the erstwhile Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of the RBI and Agricultural Refinance and Development Corporation (ARDC). Its subscribed and paid-up capital was Rs 100 crore by the Government of India (GOI) and the RBI in equal proportions.

2.3.2 Organization Structure:

The management of NABARD is vests in a board of directors, that have representatives from the RBI, the Government of India, state governments and directors nominated by the Government of India. Its Head Office is located in Mumbai and has a pan-India presence with 31 Regional Offices located in the capital of all the states/union territories and one sub-office at Port Blair.

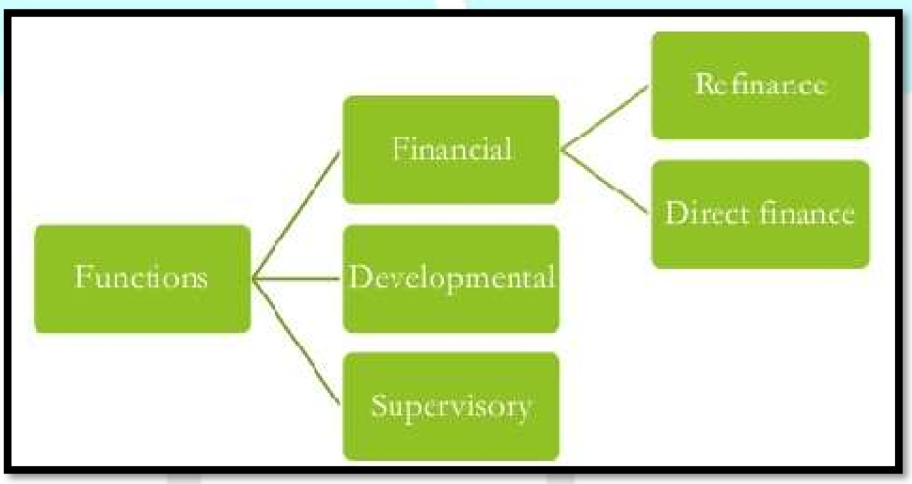
2.3.3 Mission:

Its mission is to promote

- Sustainable and equitable agriculture
- Rural prosperity through effective credit support and related services
- Institutional development and other innovative initiatives.

2.3.4 Functions of NABARD

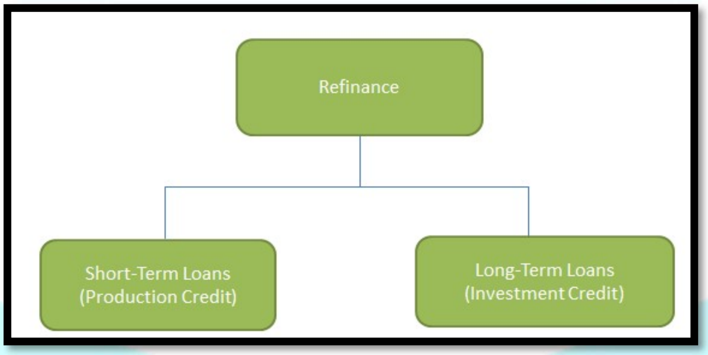
Its initiatives are aimed at building an empowered and financially inclusive rural India through specific goal-oriented departments which can be categorized broadly into three heads:



a) *Financial* like providing refinance support to building rural infrastructure
b) *Developmental* like preparing district level credit plans for guiding and motivating the banking industry in achieving the targets, designing new development schemes to the implementation of GoI's development schemes, training handicraft artisans to providing them a marketing platform for selling these articles
c) *Supervision* like Supervising Cooperative Banks and Regional Rural Banks (RRBs) to helping them develop sound banking practices and onboarding them to the CBS platform

2.3.4.1 Financial Functions

A. Refinance



Short-Term Loans (Production Credit)

Working capital to farmers for crop production is extended by way of Short- Term Crop Loans by financial institutions. Each withdrawal against the sanctioned credit limit is repayable within 12 months.
In addition to crop loans, NABARD's short-term refinance is also available to SCBs and RRBs for various activities like Agriculture and Allied Activities, Marketing of crops, Fisheries Sector, Industrial Cooperative Societies (other than weavers), etc.

Medium Term Conversion of Short-term Loans
NABARD provides medium term credit limits for conversion of short-term crop loans advanced for financing SAO to StCBs and RRBs for providing relief to the farmers whose crops are damaged due to occurrence of natural calamities. The conversion of ST(SAO) loans would be available where the crop loss has been 33% or more. NABARD provides refinance to StCBs in case of conversion to the extent of 60% of eligible amount with State Govt.'s share at 15% and StCBs/DCCBs share at 25%. In case of RRBs, NABARD's refinance is to the extent of 70% of eligible amount with sponsor banks share at 25% and RRB's share at 5%.

Long-Term Loans (Investment Credit)

Investment credit leads to capital formation through asset creation. It induces technological upgradation resulting in increased production, productivity and incremental income to farmers and entrepreneurs. NABARD provides Long Term and Medium-Term Refinance to banks for providing adequate credit for taking up investment activities by farmers and rural artisans etc.

It is intended to create income generating assets in the following sectors:

- Agriculture and allied activities
- Artisans, small scale industries, Non-Farm Sector (Small and Micro Enterprises), handicrafts, handlooms, powerlooms, etc.
- Activities of voluntary agencies and self-help groups working among the rural poor

Other Details for Refinancing
<u>Eligible Institutions</u>

The Institutions Eligible for Refinance are: State Co-operative Agriculture & Rural Development Banks (SCARDBs)/ Regional Rural Banks (RRBs) / State Co-operative Banks (StCBs) / District Central Cooperative Banks (DCCBs)/ Commercial Banks (CBs) / State Agricultural Development Finance Companies (ADFCs)/ Scheduled Primary Urban Co-operative Banks (PUCBs)/ North East Development Finance Corporation (NEDFC)/ Non-Banking Financial Companies (NBFCs/NBFCs-MFIs)

Purposes for which Refinance is given

a. Farm Sector:

Agriculture and allied activities such as minor irrigation, farm mechanization, land development, soil conservation, dairy, sheep/goat rearing, poultry, piggery, plantation/horticulture, forestry, fishery, storage and market yards, biogas and other alternate sources of energy, sericulture, apiculture, animals and animal driven carts, agro-processing, agro-service centers, etc.

b. Non-Farm Sector:

Artisans, handicrafts, handlooms, powerlooms, MSME etc.

Loan Period:

The loan period is up to a maximum of 15 years.

Refinance Window:

a. Automatic Refinance Facility (ARF):

Automatic Refinance Facility (ARF) will be extended to the Commercial Banks/State Coop Banks/ Regional Rural Banks/Primary Urban Coop Banks/DCCBs/ ADFCs/NEDFi/NBFCs without any upper ceiling on quantum of refinance, bank loan or TFO for all kinds of projects under Farm Sector (FS) & Non-Farm Sector (NFS). However, ARF will be extended to the SCARDBs for projects with TFO up to 50.00 lakh for all kinds of projects under Farm Sector (FS) and Non- Farm Sector (NFS).

b. Pre-sanction Procedure:

In case, any bank intends to avail refinance under pre-sanction procedure, they may submit projects to NABARD for project-based lending (Subject to Appraisal & Prior Sanction by NABARD).

Extent of Refinance:

The extent of refinance will be up to 95/100% of eligible bank loans depending upon the purpose, location of the investment and agency applying for refinance.

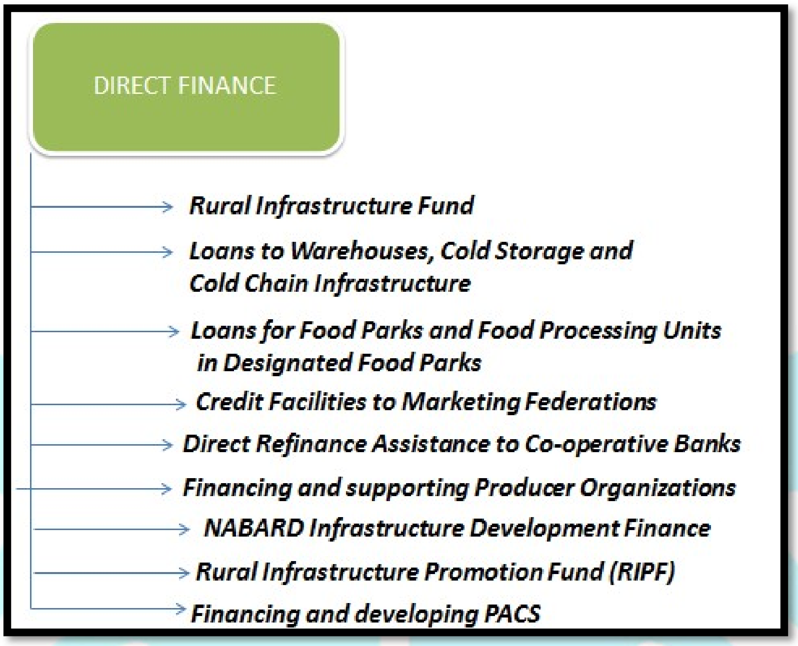
Criteria for Refinance:

- Technical Feasibility of the project
- Financial viability and bankability
- Organizational arrangements for credit supervision

Ultimate Borrowers:

Although refinance is provided to SCARDBs / StCBs /DCCBs/ CBs / RRBs / ADFCs / PUCBs / NBFCs the ultimate borrowers of investment finance may be individuals, proprietary/partnership concerns, companies, state-owned corporations or co-operative societies, SHGs, JLGs, FPOs etc.

2.3.4.2 Direct Finance:



I. Rural Infrastructure Development Fund (RIDF)

Government of India created the RIDF in NABARD in 1995-96, with an initial corpus of Rs.2,000 crore. The cumulative sanction under RIDF as on 31 March 2022 stood at 4.55 Lakh Crore to cover 7.43 Lakh projects across the country so as to boost agriculture, irrigation, rural connectivity, social sectors etc.

Eligible Activities:
At present, there are 39 eligible activities under RIDF as approved by GoI. The eligible activities are classified under three broad categories i.e.
- Agriculture and related sector
- Social sector
- Rural connectivity

Eligible Institutions:
State Governments / Union Territories/ State Owned Corporations / State Govt. Undertakings/ State Govt. Sponsored / Supported Organizations / Panchayat Raj Institutions/Self Help Groups (SHGs)/ NGOs

Mode of Finance:
NABARD releases the sanctioned amount on reimbursement basis except for the initial mobilization advance @30% to Northeastern & Hilly States and 20% for other states.

Quantum of Loan and Margin/Borrower Contribution:
The projects for rural connectivity, social and agri-related sector, are eligible for loans from 80 to 95% of project cost. Cost escalation proposals for certain genuine reasons are considered within two years of sanction.

Phasing of RIDF projects:

The implementation phase for projects sanctioned is spread over 2-5 years, varying with type of the project and also location of the State.

II. Loans to Warehouses, Cold Storage and Cold Chain Infrastructure

GOI had allocated Rs. 5,000 crore each for 2013-2014 and 2014-15 budget for supporting creation of infrastructure for storage of agricultural commodities, Reserve Bank of India (RBI) issued guidelines for creation of Warehouse Infrastructure Fund (WIF 2014 -15) in NABARD.

Activities Covered:

Loans will be provided for projects involving creation of storage infrastructure with a minimum aggregate capacity of 5000 metric tons (MT) for agricultural and allied produce, including construction of: Warehouses/ Silos / Cold storage, controlled atmosphere (CA) stores, other cold chain infrastructure activities like pack houses/integrated pack houses, reefer vans, bulk coolers, individually quick-frozen units, chilling/freezing infrastructure, etc. / Construction/ modernization/ upgradation of Marketing infrastructure facilities of Agricultural Produce Marketing Committee (APMC). / Modernization/improvement of the existing storage infrastructure projects will be considered on merit of each proposal provided it leads to scientific/additional storage capacity. / There's no minimum capacity for projects of Governments/ Government owned corporations.

Eligible Institutions/Entities:

- State Governments /State/Central Government Owned/assisted entities, Cooperatives, Federations of Cooperatives, Farmers' Producers' Organizations (FPOs), Federations of Farmers' Collectives, SPVs set up under PPP mode, etc./ Primary Agricultural Credit Societies (PACS) / Cooperative Marketing Societies (CMS) or similar institutions/ Corporates/Companies/Individual Entrepreneurs etc./ Agricultural Produce Marketing Committees (APMCs)

III. Loans for Food Parks and Food Processing Units in Designated Food Parks

Development of food processing industry in the country is accorded top priority by the Government of India as it is one of the most critical links in the agri value chain. Taking this agenda further, the Finance Ministry, in 2014, announced setting up of a Special Fund of Rs. 2,000 crores in NABARD for providing direct term loans at affordable rates of interest to Designated Food Parks (DFPs) and food processing units in the DFPs.

The objectives of the Fund are:

- To provide impetus to development of the food processing sector on a cluster basis in the country
- To reduce wastage of agricultural produce
- To create employment opportunities especially in rural areas.

Eligible Borrowers:

State Governments/ Entities promoted by State Governments or Government of India /Joint Ventures / Special Purpose Vehicles (SPVs)/ Cooperatives/ Federations of Cooperatives/ Farmers' Producer Organizations/ Corporates / Companies/ Entrepreneurs

IV. Credit Facilities to Marketing Federations

Marketing federations and cooperatives are playing a very important role in agribusiness and value/supply chain management of the various agricultural commodities. Major activities undertaken by these institutions are:

- Procurement of agricultural commodities including milk
- Aggregation, storage and value addition in few select commodities like milk etc.
- Marketing

Eligible Institutions:

State/Central Govt. Agricultural Marketing Federations, Corporations/ Dairy Co-operatives / Federations / Agriculture Marketing Co-operatives/ Federations / Registered Companies

Eligibility Criteria

Broad eligibility criteria for borrower entity for availing funding under CFF are as under:

State/Central Govt. Agricultural Marketing Federations, Corporations

- It must have been established or constituted by or under any Central Act, or State Acts and major share of the paid up capital is held or controlled by the Central / State Government
- Earned profit during the last three years and not having accumulated losses
- Entities with poor financials will be considered based on the merit of the proposal and if backed with Government Guarantee

Dairy and Agriculture Co-operatives and Federations

- It must be a registered body
- Earned profit during the last three years and not having accumulated losses
- Professional Management and democratic setup
- Audit of accounts is regular
- No history of defaults in repayment of loans

Registered Companies

- It must be a registered body under Companies Act
- Earned profit during the last three years and not having accumulated losses
- Professional Management
- The minimum credit rating of the promoting company should be at 'AA' by CRISIL or CARE
- Should not have a history of defaults in repayment of loans

Nature of Loan

Short-term credit facility (less than 12 months) for meeting working capital requirement. The limit can be operated for 12 months and the outstanding at the end of 12th month is required to be repaid.

Eligible Activities

- Procurement and marketing of agricultural commodities
- Processing and marketing of agricultural commodities
- Procurement, processing and marketing of milk
- Supply of Agricultural inputs including animal feed

Quantum of Loan and Margin/ borrower contribution

Loan and Margin/Borrower's contribution will be as per the guidelines issued by RBI from time to time. The quantum of loan depends upon the type of beneficiary and nature of loan as given below:

(i) **State/Central Govt. Agri Marketing Federations, Corporations**

- 100% for the procurement operations under decentralized procurement operations of food grains and Minimum Support Price (MSP) Scheme
- 90% for other marketing interventions

(ii) Dairy Co-operatives/Federations/ Agri. Marketing Co-operatives/Federations and Registered Companies

- Maximum of 75% of the working capital assessment. The following method will be adopted for assessing the working capital :
- WC = Total Current Assets - Current liabilities other than bank borrowings and finance *75%. Borrower will bring in minimum of 25% margin.

V. Direct Refinance Assistance to Co-operative Banks

Need for Direct Refinance Assistance to Co-operative Banks

Implementation of the Government of India's Revival Package of Short-Term Co-operative Credit Structure (STCCS) as per Vaidyanathan Committee recommendations enabled District Central Co-operative Banks (DCCBs) to borrow funds directly from any financial institution regulated/approved by RBI. As a corollary to this enabling provision, NABARD developed a progressive product titled 'Short Term Multipurpose Credit Product' (STMPCP) to provide financial assistance to Co-operative Banks (StCBs/DCCBs). The primary objective here was to expand their lendable resources and enable their diversification into a variety of business operations.

Purposes covered under STMPCP

I. Short Term Multipurpose Credit Product

- Working capital requirements
- Repair and maintenance of farm equipment and other productive assets
- Storage/grading/packaging of produce
- Marketing activities
- Crop loan (if the requirement is more than Rs.3.0 lakh)
- Redemption of old debts and other socio-economic needs
- In addition to the above, all purposes which are covered under Section 21(1)(i) to (v) of NABARD Act, 1981 are also eligible for refinance under this product

II. Assistance to Co-operative Banks for on-lending to sugar factories

The refinance assistance would be provided to Co-operative Banks for on-lending to sugar factories (co-operative & private) for prompt payment to farmers towards procurement of sugarcane and also to meet out their internal expenditure. Terms and conditions of sanction, eligibility of the banks, interest rate and security are same as that of STMPCP.

Eligibility criteria under STMPCP

I. The credit limit will be sanctioned to well-governed and financially strong 'A' and 'B' categories of StCBs/CCBs. They should also be licensed by RBI.

II. The banks should fulfill the following criteria in order to become eligible for refinance assistance from NABARD in case of on-lending to sugar factories.

a) Sugar factories should have positive net worth

b) There should not be any accumulated losses
c) Credit Monitoring Arrangements (CMA) norms must not be violated
d) Sugar factories should not have defaulted in repayment of dues to borrowing institutions
e) Annual accounts are audited regularly and are up to date
f) The account should be a standard asset with the bank

Important aspects of funding under STMPCP

I. Operative period and nature of credit limit

- The limit will be operative for a period of one year from the date of sanction
- The limit will be in the nature of cash credit
- Banks may draw and repay as many times as required
- The limit can be considered for renewal after completion of one year on satisfactory operation of the account

II. Quantum of credit limit

To the extent of 100% of bank's lending under Short Term Multi-Purpose Credit Product and 75% for on-lending to sugar factories.

IV. Security norms for refinance assistance

- Banks will be rated using risk rating tool. Based on rating, securities in the form of unencumbered fixed deposits receipts issued by the Scheduled Banks have to be provided by the borrowing banks.
- Limit to State Co-operative Banks can be considered against Government Guarantee or promissory notes as applicable.

VI. Financing and supporting Producer Organizations

In an initiative which aims to bring real time empowerment to farming communities across the country, NABARD set up "Producers Organization Development Fund" (PODF) in 2011 with an initial corpus of Rs. 50 crores. The Fund supports formation and financing producer organizations by adopting a flexible approach to meet the needs of producers. Any registered Producers Organization viz, Producers Company (as defined under Sec 581 A in part IXA of Company's Act 1956), Producers Cooperatives, registered Farmer Federations, MACS (Mutually aided cooperative society), industrial cooperative societies, other registered federations, PACS, etc. set up by producers are eligible under the fund.

The following types of support are provided under PODF:

- Credit Support in the form of grant, loans, or a combination of these for capacity building & market interventions.
- Credit Support for contribution to share capital. This has been allowed since most of the Producers Organisations are having low capital base.

VII. NABARD Infrastructure Development Finance

NABARD Infrastructure Development Assistance (NIDA) has been designed outside the purview of RIDF.

NIDA is a new line of credit support for funding rural infrastructure projects. NIDA is available for state governments and other state-owned organizations, such as corporations. And for other state-owned organizations, NIDA offers direct financing based upon risk appraisal of every specific project. A key feature of NIDA is it offers customized terms based on the requirements of the borrower, nature of the project, and risk profile of the borrower. The assistance provided under NIDA is available on flexible interest terms. It offers Term Loan up to 15 years (with a repayment holiday of 2-4 years). Interest rates will be linked to market borrowings of NABARD. Presently, NIDA products offer fixed interest rate over the entire tenure of the loan.

VIII. Rural Infrastructure Promotion Fund (RIPF)

NABARD has created a separate fund titled 'Rural Infrastructure Promotion Fund' (RIPF) to support programs and activities that promote rural infrastructure, with the ultimate objective of facilitating agriculture and rural development. RIPF has been set up with a corpus of Rs. 25 crore. The amount is contributed out of margin received by NABARD from a special window created under RIDF for funding the rural roads component of Bharat Nirman through National Rural Roads Development Agency (NRRDA).

Objectives of RIPF:

- Support for conducting knowledge sharing workshops, national/ international exposure visits for senior level bank/State functionaries, exchange of technical experts, etc.
- Support for survey of potential assessment/ demand survey for new agri/rural infrastructure projects
- Support to State Governments for preparation of detailed project reports for infrastructure development of North-East/East/Hilly areas by NABCONS upon the approval of the concerned State Government
- Creation of experimental infrastructure projects by Gram Panchayats (GPs), SelfHelp Groups (SHGs)/SHG Federations, Farmers' Clubs (FC)/ Farmers Clubs Federations and NGOs and villages under Village Development Plans (VDPs)

Eligible Institutions:

The following institutions/ individuals will be eligible for assistance from RIPF: State Governments/Uts/ Non-Government Organisations (NGOs), registered Community Based Organisations (CBOs) providing different support services to agricultural and allied sectors / Panchayati Raj Institutions (PRIs), SHGs/ SHG Federations and Farmers' Clubs/ FC Federations, etc. / Research Institutions, Universities, etc. / Other stakeholders whose objectives/ activities are in conformity with the overall objectives of RIPF and are approved by NABARD in this regard / Offices of NABARD

IX. Financing and developing PACS

Primary Agricultural Credit Societies (PACS), being registered cooperative societies, have been providing credit and other services to their members. PACS generally provide the following facilities to their members:

i. Input facilities in form of cash or kind component
ii. Agriculture implements on hiring basis
iii. Storage facility

NABARD set up Producers' Organisation Development Fund (PODF) with an initial corpus of ` 50 crore to support and finance Producers' Organisations.

The Scheme has the following components:

1. Agro-Storage centre: Upgradation of the existing storage facility or construction of new godown along with sorting/ grading unit as per Negotiable Warehouse Receipt System which will enable them to issue warehouse receipts. Based on these receipts, farmers can get loans against the crop stored and can cultivate the next crop, thus facilitating better price by holding crops without affecting the fund flow position.

2. Agro-service Centre: Purchase of hi-tech agri-implements like power tiller, land leveler, rotary slasher, movers, seed driller, multi crop planter, paddy transplanter, sprayers, combine harvester etc. depending upon the requirements of members. The earning will be from the rental of these equipment.

3. Agro-processing centre:

- Primary Processing: Sorting, grading unit, waxing/ polishing unit, pre-cooling chambers, etc.
- Secondary Processing: Value addition to produce e.g. Mini rice mill, atta chaki, horticulture produce processing etc.

4. Agri -information centre: Testing lab for soil & water, creating panel of experts for providing services on payment basis, knowledge dissemination centre, and arrange training for farmers. The testing lab & expert guidance will be available to farmers at a cost.

5. Agri Transportation & Marketing Facilities: Procurement of produce, direct market linkage after aggregation /processing, setting up of rural mart etc. The PACS, which are either in the area of marketing or intend to undertake this activity, may create this channel to facilitate the farmers in marketing.

Margin by PACS:

Minimum 10% of the project cost. However, in case of rural godown, the margin will be as per the scheme in case the subsidy is claimed by PACS. As of now, NABARD is not one of the eligible institutions to claim subsidy under Grameen Bhandaran Yojana.

Repayment:

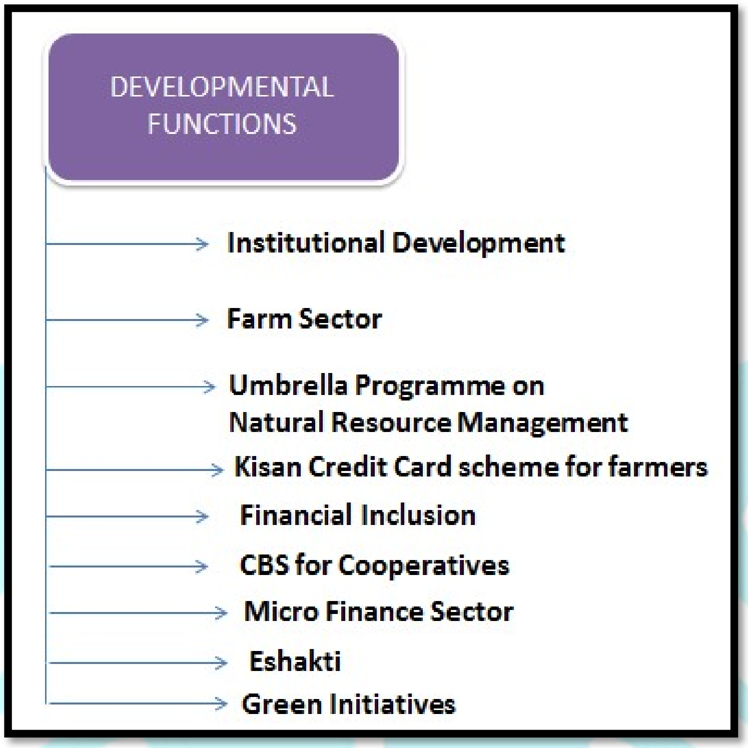
The repayment term will be maximum 9 years, including a grace period of two years.

Loan through CCB or RRB:

Loans with subsidy element can be sanctioned under PODF to CCBs for PACS in its area of operation. Each project will be evaluated by NABARD.

In case of loans routed through DCCBs/RRBs, NABARD will continue to be involved in identifying PACS, appraising proposals and monitoring project implementation and loan recovery.

2.3.4.3 Developmental Functions



I. Institutional Development

As part of its Institutional Development (ID) initiatives, NABARD supports the following institutions:

- Rural Credit Cooperatives
- State Cooperative Banks (StCBs)
- Central Cooperative Banks (CCBs)
- Primary Agricultural Credit Societies (PACS)
- State Cooperative Agriculture and Rural Development Banks (SCARDBs)
- Primary Cooperative Agriculture and Rural Development Banks (PCARDBs)

II. Farm Sector

NABARD promotes best practices in farm sector and intervenes in accelerating flow of ground level credit, increasing agricultural production and productivity, capacity building, rural livelihoods, etc.

a. Farm Sector Promotional Fund

Farm Technology Transfer Fund (FTTF) was set up in the year 2008 out of NABARD's operating profit to cater to interventions under technology transfer and dissemination. The Fund supports various initiatives for facilitating better access for farmers to various agencies providing inputs, technology, credit, extension, marketing support, etc. Support is also provided for facilitating adoption of technologies, package of practices by farmers by setting up demonstration units on recent technologies.

b. Tribal Development Programme

NABARD created a Tribal Development Fund (TDF) with a corpus of Rs. 50 crores, out of its profits for 2003-04. The corpus was augmented from time to time. All projects under TDF are implemented by partnering with State Governments, Government of India, NGOs and Corporates.

c. Watershed Development Programme

The Union Finance Minister, in his budget speech for 1999-2000, had announced the creation of a Watershed Development Fund (WDF) in National Bank for Agriculture and Rural Development (NABARD) with broad objectives of unification of multiplicity of watershed development programmes into a single national initiative through involvement of village level institutions and PFAs.

In pursuance thereof, WDF has been created in NABARD with a contribution of Rs. 100 crore each by Ministry of Agriculture, Government of India (GoI) and NABARD.

d. Promotion of Farmer Producer Organisations

Farmer Producer Organisation (PO) is a legal entity formed by primary producers, viz. farmers, milk producers, fishermen, weavers, rural artisans, craftsmen, etc. Producer Organisations have been considered to be one of the effective means of linking small producers with the agricultural value chain for the purpose of enhancing net income of producers. NABARD provides financial and development support to FPOs through the following programmes:

i. Producers Organisation Development Fund (PODF)

Recognising the strength of POs, NABARD created a dedicated fund "Producers, Organisation Development Fund (PODF)" during 2011, to support these organisations on three levers i.e. credit facilitation, capacity building and market linkage support. In addition, grant support is also made available for business incubation services, skill building, documentation of successful models, ICT application in business management, etc.

NABARD has also introduced a new scheme i.e. Producers' Organization Development Fund – Interest Differential (PODF-ID) as the corpus has been augmented by way of appropriation of interest differential out of RIDF, for the promotion and nurturing of 3,000 FPOs.

ii. 'Producers' Organization Development and Upliftment Corpus' (PRODUCE) Fund

PRODUCE Fund of Rs 200 crores was created by the Government of India in NABARD in 2014-15 for building 2,000 Farmer Producer Organizations (FPOs) in the country. The aim of the PRODUCE Fund is to promote new FPOs and support their initial financial requirements, to make them credit worthy, commercially vibrant and sustainable business enterprise of farmers.

iii. Central Sector Scheme for Promotion and Nurturing of Farmers Producers Organisations (FPOs)

The GoI has announced Central Sector Scheme on Formation and Promotion of 10,000 FPO and NABARD is one of the Implementing Agencies. The aim of the scheme is to promote new FPOs and support their initial financial requirements to make them credit worthy, commercially vibrant, and as a sustainable business enterprise for farmers. BIRD, Lucknow as Nodal Training Institute for the scheme A Credit Guarantee Fund of Rs 1,000 crore with equal contribution from GoI and NABARD has been set up under NABSANRAKSHAN, a subsidiary of NABARD.

III. Umbrella Programme on Natural Resource Management

NABARD in collaboration with KfW and GIZ, two Germany-based funding partners, is implementing the Umbrella Programme on Natural Resource Management (UPNRM) since 2009. The programme aims to improve livelihoods in rural areas by conservation of natural resources. This programme supports unique natural resource management projects. Cumulatively 334 UPNRM projects have been sanctioned across the country covering 10 major natural resource management sectors with a financial assistance of ₹738.55 crore including grant assistance of ₹45.38 crore. The cumulative disbursement as on 31 March 2021 stood at ₹577.22 crore including grant assistance of ₹31.54 crore.

IV. Kisan Credit Card scheme for farmers

The Kisan Credit Card (KCC) scheme was designed by NABARD in association with the Reserve Bank of India (RBI) in August 1998. It has today emerged as the backbone of India's rural credit delivery system. The scheme is under implementation in the entire country involving Commercial Banks, RRBs and Cooperatives and has received wide acceptability amongst bankers and farmers. NABARD has been at the forefront of technology revolution by helping rural financial institutions in providing RuPay KCCs to all their farmer clients.

V. Financial Inclusion

The Government of India constituted a "Committee on Financial Inclusion" under the Chairmanship of Dr. C. Rangarajan. The Committee submitted its final report to Hon'ble Union Finance Minister on 04 January 2008. The Committee on Financial Inclusion has defined Financial Inclusion as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost." Among others, the Committee recommended setting up of two funds - Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF). Both these Funds have since been merged into a single Fund, the financial inclusion Fund (FIF). The FIF is administered by an Advisory Board constituted by Govt. of India and maintained by NABARD.

VI. CBS for Cooperatives

NABARD plays the role of an advisor and facilitator in implementation of Core Banking Solutions (CBS) in Cooperative Banks under "NABARD-initiated Project on CBS". The overarching objective of this initiative has been to help them participate in the payment system through RTGS/NEFT and also to provide the facility of "Anytime, Anywhere Banking" to their customers.

VII. Micro Finance Sector

NABARD launched the Self-Help Group (SHG) Bank Linkage Programme in 1992 with a target of linking 500 SHGs in a year 's time which eventually transformed into the world's largest micro-finance programme with an outreach of over 100 million poor rural households. Various other initiatives like financing of Joint Liability Groups (JLGs), Micro Enterprise Development Programmes, Livelihood and Enterprise Development Programmes, promotion of women SHGs in backwards and left wing extremism districts of India, conducting village level programmes , capacity building, etc taken by NABARD in the sector.

VIII. EShakti

In a bid to digitise SHGs, project EShakti was launched on 15 March 2015 in 02 districts{ Ramgarh (Jharkhand) and Dhule (Maharashtra)} as a pilot. As on 31 March 2021, data pertaining to 12.33 lakh SHGs involving 140.91 lakh members in more than 1.67 lakh villages of 281 districts have been on-boarded in EShakti portal. The Project has enabled the Bankers in providing on line credit to SHGs based on an inbuilt grading system in the portal. It has resulted into increase in credit linkage with banks from 4.68 lakh (38% groups) to 6.49 lakh (53% groups) as on 31 March 2021. SMS alerts received by SHG members on their banking transaction in local language (10 languages) boosted the confidence and empowerment among the women.

IX. Green Initiatives

a. Adaptation Fund under United Nations Framework Convention on Climate Change (UNFCCC)

The Adaptation Fund (AF) was set up under the Kyoto Protocol of the United Nations Framework Convention on Climate Change (UNFCCC). It was established in 2001 and officially launched in 2007 at CoP 7 in Marrakech, Morocco. It aims to finance concrete projects and programmes that help vulnerable communities in developing countries that are Parties to the Kyoto Protocol to adapt to climate change. The Fund is financed in part by government and private donors, and also from a two percent share of proceeds of Certified Emission Reductions (CERs) issued under the Protocol's Clean Development Mechanism (CDM) projects.

The Adaptation Fund headquartered in Washington, USA is supervised and managed by the Adaptation Fund Board (AFB). The AFB is composed of 16 members and 16 alternates and holds periodic meetings throughout the year. The World Bank serves as trustee of the Adaptation Fund on an interim basis.

Ministry of Environment, Forest & Climate Change, Govt. of India is the National Designated Authority (NDA) for Adaptation Fund and proposals are submitted with endorsement of NDA.

NABARD has been accredited as National Implementing Entity (NIE) for Adaptation Fund in July 2012 and is the only NIE for India. The NIEs bear full responsibility for the overall management of the projects and programmes financed by the Adaptation Fund and have all financial, monitoring, and reporting responsibilities.

b. Green Climate Fund

The Green Climate Fund has been designated as an operating entity of the financial mechanism of the UNFCCC. The decision to set up the Green Climate fund (GCF) was taken at COP 16 in Cancun on December 2010 and the GCF was operationalized in COP 17 in Durban in 2011. The GCF is head quartered in Songdo, Incheon City, Republic of Korea.

NABARD is accredited as National Implementing Entity in 10th Board meeting of GCF held on 9 July 2015 on fast track. NABARD is eligible to submit large size projects having outlay of more than USD 250 million.

c. National Adaptation Fund for Climate Change

The National Adaptation Fund for Climate Change (NAFCC) was established in August, 2015 to meet the cost of adaptation to climate change for the State and Union Territories of India that are particularly vulnerable to the adverse effects of climate change. Government has set up a budget provision of Rs.350 crores for the year 2015-16 and 2016-17, with an estimated requirement of Rs. 181.5 crores for financial year 2017-18 for NAFCC. The projects under NAFCC prioritize the needs that build climate resilience in the areas identified under the SAPCC (State Action Plan on Climate Change) and the relevant Missions under NAPCC (National Action Plan on Climate Change).

NABARD has been designated as National Implementing Entity (NIE) for implementation of adaptation projects under NAFCC by Govt. of India.

2.3.4.4 Supervisory Functions

NABARD undertakes statutory inspections of 33 State Co-operative Banks, 371 District Central Cooperative Banks and 56 Regional Rural Banks and voluntary inspections of 20 State Cooperative Agriculture and Rural Development Banks besides select apex non-credit cooperatives. It has developed web-based portal **"ENSURE" (ElectroNIC SUbmission of REturns)** is a step towards convergence of offsite surveillance system with onsite inspection.

2.3.5 NABARD Subsidiaries

NABARD has four subsidiaries:-

1. NABARD Consultancy Services (NABCONS) New Delhi,
2. NABARD Financial Services (NABFINS) Bengaluru,
3. NABKISAN Financial Ltd, Chennai.
4. NABSAMRUDDHI FINANCE LIMITED
5. NABFOUNDATION
6. NABVENTURES LIMITED
7. NABSANRAKSHAN TRUSTEE COMPANY PRIVATE LIMITED

1. NABARD Consultancy Services

This is its wholly owned subsidiary, set up in 2003 to address the required consultancy needs of rural sector. The subsidiary has emerged as an established professional consultancy service provider in the fields of agriculture and rural development. The agency leverages NABARD's expertise and has its own specialists. The services of NABCONS are contracted by various agencies like GoI, State Governments, banks, international agencies, corporate entities and individuals.

2. NABARD Financial Services

NABARD Financial Services (NABFINS), a public limited company providing microfinance to SHGs through Business & Development Correspondents was incorporated on 25 February 1997 as a Non-Banking Finance Company. The main objective of the company is to provide financial services in two broad areas of agriculture and micro finance. NABARD holds 67% equity in the company. The other shareholders are Govt. of Karnataka, Canara Bank, Union Bank of India, Bank of Baroda, Federal Bank and Dhanalakshmi Bank Ltd.

3. NABKISAN Financial Ltd

Agri Development Finance (TamilNadu) Limited was incorporated in 1997 and rechristened as NABKISAN Finance Ltd in 2014. The company has recently set up its corporate office in Mumbai so as to expand pan-India with special focus on financing Producers Organisations. NABARD holds 86% stake in the company.

4. **NABSAMRUDDHI FINANCE LIMITED**

NABSAMRUDDHI Finance Limited (NSFL) (formerly Agri Business Finance Limited) was incorporated under the Companies Act, 1956 on 17 February 1997 and is registered as a Non-Banking Financial Company with the Reserve Bank of India. It has been promoted with equity participation from National Bank for Agriculture and Rural Development (NABARD) (90.68%), the Governments of Andhra Pradesh and Telangana (4.74%), Andhra Bank (1.72%), Canara Bank (0.69%), and others (2.17%). The objective of NABSAMRUDDHI Finance Limited is to provide credit facilities to individuals and other legal entities.

5. **NABFOUNDATION**

NABFOUNDATION, is a Section 8 not for profit company, promoted and fully owned by National Bank for Agriculture and Rural Development (NABARD) to execute development projects across the length and breadth of the country either on its own or in partnership with other stakeholders. The company has been formed newly in August 2019. The Foundation, over time, is set to evolve into a vibrant platform for executing impactful projects either on its own, or, in partnership with other stakeholders (like civil society organizations, agri-universities, Government departments and CSR outfits of both public and private organizations).

6. **NABVENTURES LIMITED**

NABVENTURES Limited is a wholly owned subsidiary of NABARD. NABVENTURES is the Investment Manager of NABVENTURES Fund I with a target corpus of INR 500 crore. The fund focus on investments in early to mid-stage start-ups in agriculture, agtech, agri-biotech, food, agri/rural fintech and rural businesses. The fund has **secured Category II Alternative Investment Fund certificate from SEBI. The fund invests in asset-light business models, high on innovation**/technology, solving large problems in agriculture, food and rural development through innovative means.

7. **NABSANRAKSHAN TRUSTEE COMPANY PRIVATE LIMITED**

NABSanrakshan Trustee Company Private Limited is a wholly owned subsidiary of NABARD with an authorized capital of Rs. 100 crore. NABSanrakshan aims to carry out credit guarantee and related activities towards sustainable and equitable agriculture and rural development. Agriculture and allied industry being a priority for the economy in creating new avenues for development, NABSanrakshan will provide the necessary fillip to the growth of the sector, through access to finance.

2.3.6 Major GOI Schemes by NABARD:

A. **Farm Sector Schemes:**
   - Dairy Enterpreneurship Development Scheme
   - Commercial production units of organic inputs
   - Agriclinic and Agribusiness Centres Scheme
   - National Livestock Mission
   - GSS – Ensuring End Use of Subsidy Released
   - Interest subvention Scheme
   - New Agricultural Marketing Infrastructure
   - FORMULATION OF SPECIAL LONG TERM REFINANCE SCHEMES

B. Off Farm Sector Schemes
   - Credit Link capital subsidy schemes
   - NRLM/NULM
   - Weavers Package

For Details of these Scheme – refer Main Scheme Document

2.3.7 Recent Developments

There is a good chance that question asked from this chapter is based on current affairs, so please read the FM current affairs part in your course. All the relevant current affairs would be covered there

2.3.8 FAQ about NABARD Bank

Is NABARD regulated by RBI?

Reserve Bank of India is the central bank of the country with sole right to regulate the banking industry and supervise the various institutions/banks that also include NABARD defined under Banking Regulation Act of 1949.

Who owns NABARD?

NABARD is fully owned by the Government of India.

Cabinet approves proposal for Amendments to the NABARD Act, 1981 on 22nd March 2017:

a) The Amendments include provisions that enable Central Government to increase the authorized capital of NABARD from Rs. 5,000 crores to Rs. 30,000 crore and to increase it beyond Rs. 30,000 crores in consultation with RBI, as deemed necessary from time to time.
b) Transfer of 0.4 per cent equity of RBI in NABARD amounting to Rs. 20 crores to the Government of India.

2.4 National Housing Bank

2.4.1 HISTORY

The Committee of Secretaries considered' the recommendation and set up the High-Level Group under the Chairmanship of **Dr. C. Rangarajan**, the then Deputy Governor, RBI to examine the proposal and recommended the setting up of National Housing Bank as an autonomous housing finance institution. The recommendations of the High-Level Group were accepted by the Government of India.

Government on February 28, 1987, announced the decision to establish the National Housing Bank (NHB) as an apex level institution for housing finance. Following that, the National Housing Bank Bill (91 of 1987) providing the legislative framework for the establishment of NHB was passed by Parliament in the winter session of 1987 and with the assent of the Hon'ble President of India on December 23, 1987, became an Act of Parliament.

The National Housing Policy, 1988 envisaged the setting up of NHB as the Apex level institution for housing.

In pursuance of the above, **NHB was set up on July 9, 1988 under the National Housing Bank Act, 1987**.

2.4.2 Organisation Structure

NHB was set up on 9 July 1988 under the National Housing Bank Act, 1987. NHB is now wholly owned by Govt. of India. It is under the jurisdiction of Ministry of Finance

The general superintendence, direction and management of the affairs and business of NHB vest, under the Act, in a Board of Directors.

The Head Office of NHB is at New Delhi.

2.4.3 Mission

Its mission is to harness and promote the market potentials to serve the housing needs of all segments of the population with the focus on low- and moderate-income housing.

2.4.4 Objectives

NHB has been established to achieve the following objectives-

- To promote a sound, healthy, viable and cost-effective housing finance system to cater to all segments of the population and to integrate the housing finance system with the overall financial system.
- To promote a network of dedicated housing finance institutions to adequately serve various regions and different income groups.
- To augment resources for the sector and channelize them for housing.
- To make housing credit more affordable.
- To regulate the activities of housing finance companies based on regulatory and supervisory authority derived under the Act.
- To encourage augmentation of supply of buildable land and also building materials for housing and to upgrade the housing stock in the country.
- To encourage public agencies to emerge as facilitators and suppliers of serviced land, for housing.

2.4.5 Functions

The 3 Main function of NHB in the housing finance business in the country are as follows

1. Promotion and Development Function

NHB is encouraging the financial institutions to lend to this segment through its refinance programmes. There has been a sustained effort at creating and supporting new set of specialised institutions to serve as dedicated centres for housing credit.

2. Regulatory Function

NHB has come up with guidelines for recognising HFCs for its financial assistance, guidelines for financial assistance. Besides it has also issued guidelines for prudential norms for income recognition, asset classification etc.

3. Financial Function

The third important role of NHB is to provide financial assistance to the various banks and housing finance institutions.

2.4.6 Major GOI Schemes by NHB

- Pradhan Mantri Awas Yojana
- Rural Housing Interest Subsidy Scheme

For Details of these Scheme – refer Main Scheme Document

2.4.7 NHB Residex

NHB RESIDEX, India's first official housing price index, was an initiative of the National Housing Bank (NHB) undertaken at the behest of the Ministry of Finance, Government of India. It was launched in July, 2007.

The scope has been widened under **NHB RESIDEX** brand, **to include housing price indices (HPI), land price indices (LPI) and building materials price indices (BMPI), and also housing rental index (HRI)**. The revamped RESIDEX has been expanded to 50 cities spread over 18 States and UTs. These include 38 smart cities, of which 18 are state capitals. **Base year for the new RESIDEX has been moved from 2007 to 2012-13** to capture the changing structure of the economy besides capturing the latest information to accurately reflect the current economic situation, as per the internationally accepted practices.

Thereafter revamped NHB RESIDEX with larger scope and wider geographical coverage was published. **This index is computed taking FY2012-13 as base year and is updated up to March 2018. With effect from April 2018, a new series with FY2017-18 as new base year has been published and is updated up to the current quarter.** In order to maintain continuity in the time series data, NHB RESIDEX 2012-13 series subsequent to change in base year has been calculated using backward linking factor.

NHB RESIDEX helps buyers and sellers to check and compare prices before entering a transaction.

2.4.7.1 Housing Price Index (HPI)

The HPI represents the price changes in residential housing properties. At present, the geographical coverage consists of 50 cities in India including 18 State/UT capitals and 37 smart cities, which will progressively be expanded to over 100 cities including all State/UT capitals and smart cities. These 50 cities are selected on the basis of data availability.

2.4.7.2 Housing Rental Index (HRI)

Like HPI, NHB RESIDEX will also track the movement in housing rental prices over a period of time using market data.

2.4.7.3 Land Price Indices (LPI)

Land Price Indices will be built using market data and registration data. Land being the raw material for housing and industrial development, it is important to track its prices for maintaining economic efficiencies.

2.4.7.4 Building Material Price Indices (BMPI)

Building Material Price Indices will comprise of prices trends of traditional (like cement, steel, sand, brick, wood etc.) and energy saving (glass, fibre etc.) building materials.

2.4.8 Recent Developments in Housing Sector

There is a good chance that question asked from this chapter is based on current affairs, so please read the FM current affairs part in your course. All the relevant current affairs would be covered there

2.5 SIDBI

2.5.1 History

Small Industries Development Bank of India (SIDBI) set up on April 2, 1990 under an Act of Indian Parliament- the SIDBI Act, 1989. The charter establishing SIDBI envisaged it to be 'the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities.

In pursuance of the SIDBI Amendment Act,2000 and as approved by GOI, 51.1 percent equity shares of SIDBI held by IDBI have been transferred to public sector banks, LIC, GIC and other institutions owned and controlled by the central Government.

Presently, the shares of SIDBI are held by 23 institutions/PSBs/insurance companies owned or controlled by the Central Government, with State Bank of India (16.73%), IDBI Bank Ltd. (16.25%) and GOI (15.40%) as its three largest shareholders.

2.5.2 Mission

Its mission is to facilitate and strengthen credit flow to MSMEs and address both financial and developmental gaps in the MSME eco-system.

2.5.3 Corporate Structure

SIDBI is headquartered in Lucknow. It has 15 Regional offices and 80 Branches located all over India.

Definitions of Micro, Small & Medium Enterprises

MSMEs in India were defined in terms of investment in plant and machinery / equipment, but this keeps on changing by time. We cover the latest figures in the RBI Notifications in current affairs sub-course.

In accordance with the provision of **Micro, Small & Medium Enterprises Development (MSMED) Act, 2006** the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

1. **Manufacturing Enterprises**The Manufacturing Enterprise is **defined in terms of investment in Plant & Machinery**.
2. **Service Enterprises: -**The enterprises engaged in providing or rendering of services and are **defined in terms of investment in equipment.**

2.5.4 Business Domain of SIDBI

The business strategy of SIDBI is to address the financial and non-financial gaps in MSME eco-system. Financial support to MSMEs is provided by way of

(a) **Indirect / refinance to Financial Institutions** including banks, state entities, Micro Finance Institutions (MFIs) for onward lending to MSMEs and

(b) **Direct finance to MSMEs** in the niche areas like risk capital, sustainable finance, receivable financing, service sector financing, etc.

2.5.5 Objectives of SIDBI:

Four basic objectives are set out in the SIDBI Charter. They are:

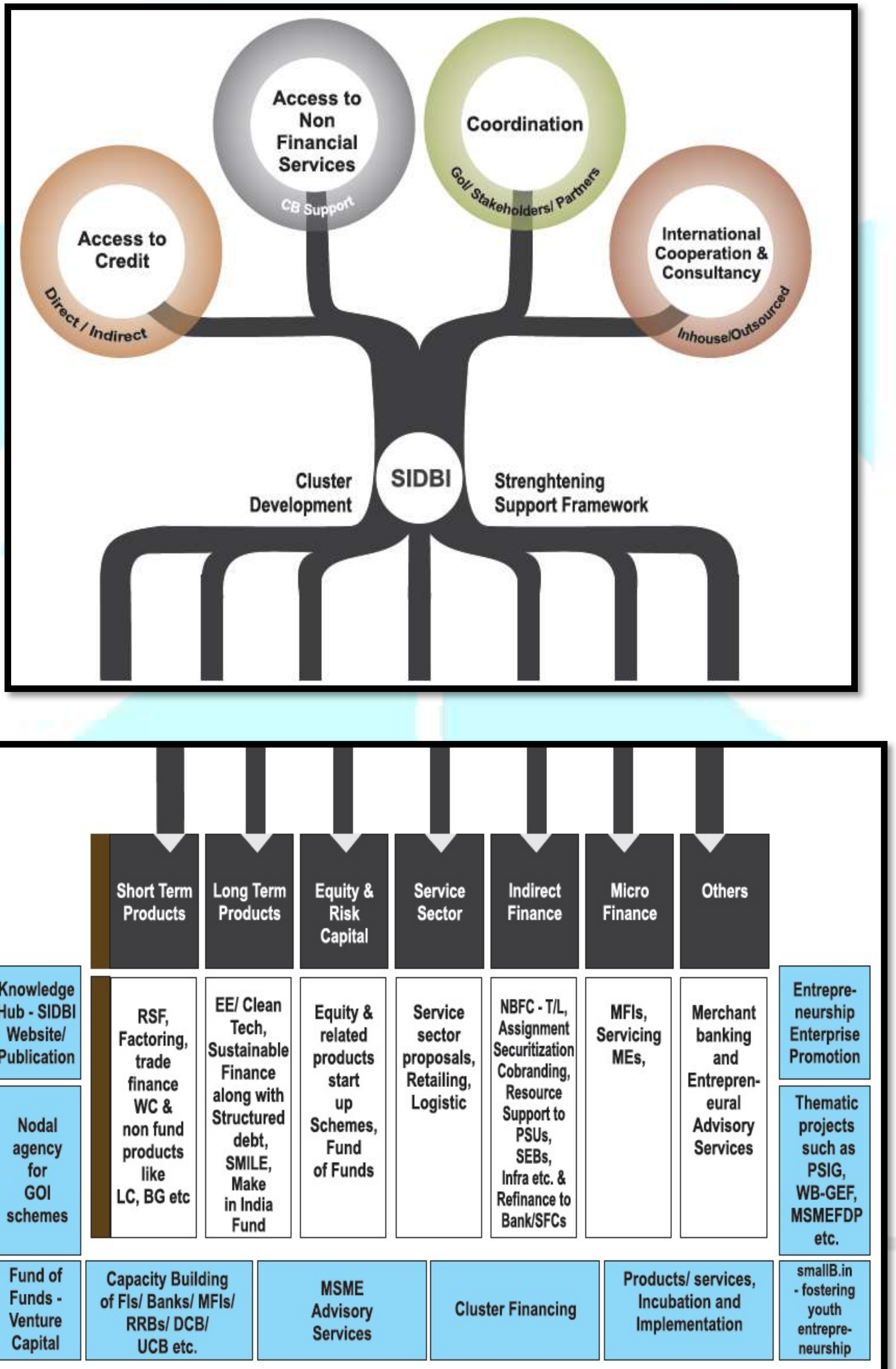
1. Financing
2. Promotion
3. Development
4. Co-ordination

2.5.6 Functions of SIDBI

The important functions of SIDBI are as follows:

1. SIDBI Refinance loans and advances extended by the primary lending institutions to small scale industrial units and also provide sources support to them,
2. SIDBI discounts and rediscounts bills arising from sale of machinery to or manufactured by industrial units in the small-scale sector,
3. SIDBI extends seeds capital / soft loan assistance under National Equity Fund, Mahila Udyam Nidhi and Mahila Vikas Nidhi and seed capital scheme through specified lending agencies,
4. SIDBI grant direct assistance as well as refinance loan extended by primary lending Institution for financing export of products manufactured by industrial concerns in the small-scale sector,
5. SIDBI provides services like leasing, factoring etc. to industrial concerns in small scale sector.
6. SIDBI extends financial support to state small Industries Development Corporation (SSIDCs) for providing source raw materials to and marketing the end products of industrial units in small scale units,

7. SIDBI provides support to National Small Industries Corporation (NSICs) for providing leasing, hire-purchase, and marketing support to industrial units in the small-scale sector,



2.5.7 Major Digital and other Initiatives undertaken by SIDBI

2.5.7.1 SIDBI StartUp Mitra

An online start-up ecosystem platform -- SIDBI Startup Mitra -- developed by the state-owned funding institution as part of its efforts to scale up initiatives targeted at entrepreneurship development.

The platform will enable entrepreneurs in the start-up community to get connected with various stakeholders, namely incubators, angel investors, venture capital funds and the like.

This gives an opportunity for discussion and implementation of several suggestions to strengthen financing and other aspects relating to innovation ecosystem.

2.5.7.2 SIDBI Udyami Mitra

Under portal 'www.udyamimitra.in', financial assistance is provided for all enterprise loans including

Any type of enterprise loans
MUDRA (Shishu) – upto Rs. 50,000
MUDRA (Kishore) – above Rs. 50,000 upto Rs. 5,00,000
MUDRA (Tarun) – above Rs. 5,00,000 upto Rs. 10,00,000
Stand-Up India for SC/ST and Women - Rs. 10 lakh to Rs. 100 lakh,
SME loans - upto Rs. 10 crore

It is an enabling platform and aims at instilling ease of access to MSMEs financial and non-financial service needs.

Key Features

- **Matchmaking platform**- It provides a unique match making platform to MSME loan seekers, lenders as also handholding agencies. The portal has designed capability to accept varied MSME loan applications. **Presently loans up to 10 crores can be accessed**. The portal aims to be a crucial interface layer to create a support system involving varied stakeholder.
- **Inclusive Access to all** - It provides access to both financial (1.25 lakh bank branches) and non-financial services (17000+ handholding agencies) with three distinct features viz.
  (i) Seek Handholding support;
  (ii) Select and apply for loans to preferred banks;
  (iii) Enable faster loan processing.

2.5.7.3 MUDRA Mitra App

'MUDRA Mitra' is a mobile phone application providing information regarding 'Micro Units Development and Refinance Agency Ltd. (MUDRA)', a wholly owned subsidiary of SIDBI and its various products/schemes. It will guide a loan seeker to approach a banker in availing MUDRA loan under Pradhan Mantri Mudra Yojana (PMMY). Users can also access useful loan related material including sample loan application forms.

2.5.7.3.1 What is MUDRA Scheme?

Refer the Main Scheme Document

2.5.7.4 SIDBI Venture Funds

SIDBI has played a critical role in developing the MSME venture eco- system in the country.

2.5.7.5 Stand Up Mitra Portal

The portal 'www.standupmitra.in' facilitates bank loan between `10 lakh to `1 crore to at least one SC/ST and one women borrower per bank branch for setting up Greenfield enterprises in manufacturing, services or trading activities.

2.5.7.6 Udyog Aadhar

The Ministry of MSME, in consultation with the National Board of MSMEs and the Advisory Committee in this behalf, has prepared a one-page registration form that would constitute a self-declaration format under which the MSME will self-certify its existence, bank account details, promoter/owner's Aadhaar details and other minimum basic information required. Based on the same, the MSMEs can be issued online, a unique identifier i.e. Udyog Aadhaar Number.

The Ministry of MSME has set up the infrastructure i.e., the Udyog Aadhaar (UA) Portal (http://udyogaadhaar.gov.in) for online filing of Udyog Aadhaar Memorandum (UAM) by enterprises located anywhere in the country. The UA portal is also accessible on mobile devices.

2.5.7.7 National Credit Guarantee Trustee Company Ltd (NCGTC)

Subsequent to the Central Budget announcements during the year 2013-14 to set up various credit guarantee funds, a common trustee company in the name and style of National Credit Guarantee Trustee Company Ltd (NCGTC) was set up by the Department of Financial Services, Ministry of Finance, Government of India to, inter alia, to act as a common trustee company to manage and operate various credit guarantee trust funds.

Credit guarantee programmers are designed to share the lending risk of the lenders and in turn, facilitate access to finance for the prospective borrowers. The intent of NCGTC is therefore, to manage multiple guarantee schemes as part of a larger financial inclusion programme of the government covering different cross-sections and segments of the economy like students, micro entrepreneurs, women entrepreneurs, SMEs, skill and vocational training needs, etc.

Presently, there are nine dedicated credit guarantee Trusts under the Management of NCGTC viz.

- Credit Guarantee Fund Scheme for Educational Loans (CGFEL),
- Credit Guarantee Fund Scheme for Skill Development (CGFSD),
- Credit Guarantee Fund Scheme for Factoring (CGFF),
- Credit Guarantee Fund for Micro Units (CGFMU) and
- Credit Guarantee Fund for Stand-Up India (CGFSI),
- Emergency Credit Line Guarantee Scheme (ECLGS),
- Credit Guarantee Scheme for MFIs (CGSMFI),
- Loan Guarantee Scheme for COVID Affected Sectors (LGSCAS) and
- Loan Guarantee Scheme for COVID Affected Tourism Service Sector (LGSCATSS).

Cumulatively, these nine Trusts have a committed credit guarantee corpus of ₹ 79,950 crore as on March 31, 2022.

2.5.8 Recent SIDBI and MSME sector related News

In exam, the questions from this chapter if asked are current affairs based, so please read the FM Current Affairs section in your course

2.6 Insurance Regulatory & Development Authority

2.6.1 History

The Government of India was the regulator for the insurance industry until 2000. However, to institute a stand-alone apex body, the IRDA was established in 2000 following the recommendation of the Malhotra Committee report in 1999. Insurance Regulatory and Development Authority of India (IRDAI), is a statutory body formed under an Act of Parliament, i.e., Insurance Regulatory and Development Authority Act, 1999 (IRDAI Act 1999) for overall supervision and development of the Insurance sector in India.

IRDAI's Head Office is at Hyderabad

2.6.2 Organization Structure

As per Sec. 4 of IRDAI Act, 1999, the composition of the Authority is:

a) Chairman.

b) Five whole-time members.

c) Four part-time members (appointed by the Government of India)

2.6.3 Objectives

The mission statement of the IRDA is:

- To protect the interest and fair treatment of the policyholder.
- To regulate the insurance industry in fairness and ensure the financial soundness of the industry.
- To regularly frame regulations to ensure the industry operates without any ambiguity.

2.6.4 Functions of IRDAI

Below are the important functions of the IRDAI in the insurance industry in India:

- Grant, renew, modify, suspend, cancel or withdraw registration certificates of the insurance company.
- Protecting the interests of the policyholder in matters concerning the grant of policies, settlement of claims, nomination by policyholders, insurable interest, surrender value of the policy and other terms and conditions of the policy.
- Specify code of conduct, qualifications and training for intermediary or insurance agents.
- Specify code of conduct for loss assessors and surveyors.
- Levying fees and charges for carrying out the provisions of the Act.
- Undertaking inspection, calling for information, and investigations including an audit of insurance companies, intermediaries, and other organizations associated with the insurance business.
- Regulate and control insurance rates, terms and conditions, advantages that may be offered by the insurance providers.

2.6.5 Types of Insurances Regulated by the IRDAI

Insurance is mainly divided into Life and Non-Life/General Insurance. These are further classified into other types of insurance. Below are the types of insurance regulated by the IRDAI:

A. **Life Insurance**
B. **General Insurance**

2.6.6 Entities regulated by IRDAI:

a. **Life Insurance Companies**
b. **General Insurance Companies**
c. **Re-Insurance Companies**
d. **Agency Channel**
e. **Intermediaries** which include the following:
    - Corporate Agents
    - Brokers
    - Third Party Administrators
    - Surveyors and Loss Assessors

2.6.7 Recent Developments

There is a good chance that question asked from this chapter is based on current affairs, so please read the FM current affairs part in your course. All the relevant current affairs would be covered there

2.6.8 FAQ

What is Insurance Ombudsman?

Insurance Ombudsman is a scheme initiated by the Government of India to ensure a cost-effective, efficient and impartial settlement of your grievances. Usually, the Ombudsman declares the award within three months of the hearing. However, you can approach an Ombudsman only if the value of the claim is less than or equal to `30 lakh.

What are the principles of insurance?

Principle of Utmost Good Faith:

- It is duty of insured, to disclose all facts material to the risk being proposed to be covered, whether requested or not.

Principle of Insurable Interest:

- Insurable interest means the right to insure. Policy holder must have pecuniary (financial) interest in insurance. Insurable interest is said to exist, if any damage to property (or person) should result in financial loss to insured.

Principle of Indemnity:

- General Insurance contract is a contract of indemnity (ie. to make good the loss)
- Life insurance is not a contract of indemnity as loss cannot be made good
- Loss to be compensated is calculated on the basis value of asset and amount of insurance.
- Stock worth Rs. 15 lac. Insurance Rs. 12 lac. Loss to stock Rs. 8 lac. Claim liability of insurance company = 8*12/15 = 6.40 lac

Principle of Subrogation:

- Rights of insured (say to sue 3rd parties for loss) are transferred to insurer on payment of claim.
- X is insured for personal accident. He is hit by a car. The driver of the car was drunk. X can claim from insurance company. Insurance company can claim from car owner/driver.

Principle of Contribution:

- If a person is insured by more than one insurer, max amount if claim is restricted to amount of loss.
- It is shared by all insurers. If one of them makes payment, it can recover from other insurers

Principle of Proximate Cause:

- It means immediate cause of mishap, that resulted into loss.
- If cause is different from the one, for which insurance is obtained, the insurer is not liable Example: Fire insurance taken for short circuiting. Fire caused by leakage of LPG cylinder. Insurance company not liable.

2.7 Securities and Exchange Board of India (SEBI)

2.7.1 History

SEBI basically came into existence as a non-statutory body in 1988 by a resolution of the Government of India. However, with the passing of the 1992 Act, it got the statutory status. With this Act, SEBI became an autonomous body of the Government of India. It was created to regulate the securities/capital market of India.

SEBI has its headquarters in MUMBAI.

2.7.2 Composition of SEBI Board

Section 4(1) of the SEBI Act provides that the SEBI Board shall consist of the following nine (9) members, namely:

1. A Chairman. Chairman is to be nominated by the Central Government.
2. Two members from amongst the officials of the Ministry of the Central Government dealing with finance and administration of the Companies Act 2013;
3. One member from amongst the officials of the Reserve Bank Of India;
4. Five other members of whom at least three shall be the whole-time members, to be appointed by the Central Government.

2.7.3 Functions of SEBI

1. To review the market operations, organizational structure and administrative control of the stock exchanges.
2. To overlook the registration and regulation of working of market intermediaries such as merchant bankers, portfolio managers, stockbroker etc.
3. To overlook the registration and regulation of Mutual Funds, Venture Capital Funds and Collective Investment Schemes.
4. To promote and regulate Self-Regulatory Organizations.
5. Prohibiting fraudulent and unfair trade practices in the securities market.
6. Prohibition of Insider Trading.
7. To educate and train the investors.
8. To conduct inspections and inquiries
9. Conducting research to perform the above functions.

2.7.4 Powers of SEBI

In order to perform the functions, SEBI has been bestowed with wide range of powers. Some of which are herein culled out for better understanding of the topic.

1. **Power to Inspect Books of Accounts**
2. **Powers as vested in civil court**
3. **Power to regulate securities market intermediaries**
4. **Power to investigate**

2.7.5 Recent Developments

There is a good chance that question asked from this chapter is based on current affairs, so please read the FM current affairs part in your course. All the relevant current affairs would be covered there

2.7.6 FAQ

What is insider trading?

Insider trading involves trading in a public company's stock by someone who has non-public, material information about that stock for any reason.

What is the penalty for insider trading?

Section 12A(d) of the SEBI Act. 1992 expressly prohibits insider trading while section 15G imposes a penalty of a sum ranging between **ten lakhs to twenty-five crore rupees** or a penalty of a sum which is three times the amount of profit made, whichever is higher.

What is Securities Appellate tribunal?

- **About:** SAT is a statutory body established under the provisions of Section 15K of the SEBI Act, 1992.
- **Composition:**
  - SAT consists of a Presiding Officer and Two other members.
  - The Presiding officer of SAT shall be appointed by the Central Government in consultation with the Chief Justice of India or his nominee.
- **Powers:**
  - It has the same powers as vested in a civil court. Further, if any person feels aggrieved by SAT's decision or order can appeal to the Supreme Court.
- **Functions:**
  - To hear and dispose of appeals against orders passed by the SEBI or by an adjudicating officer under the SEBI Act,1992, PFRDA, IRDAI.
- **Appeal:** Every person aggrieved by any order or decision of Securities Appellate Tribunal can file an appeal to **the supreme court**.

Mention the entities in security market regulated by SEBI.

Stock-Brokers	He is a professional individual who executes buy and sell orders on behalf of clients for stocks.
Bankers to Issue	They manage issue related activities namely acceptance of application and application monies; acceptance of allotment; refund of application monies
Registrar to an Issue	It is appointed by company to carry on activities of collecting applications from investors in respect of an issue; keeping a proper record of applications etc.
Merchant Banker	They provide consultancy on matters and manage different aspects pertaining to issue of securities.
Underwriter	Underwriting is a process during IPOs, wherein investment banks first buy or underwrite the securities of the issuing entity and then sell them in the market.
Other Intermediaries	They include sub-brokers, share transfer agents, portfolio managers, investment advisors and other intermediaries associated with securities market.

Apart from the above**,** SEBI even supervises and regulates

1. Custodians
2. Mutual funds
3. Listed companies
4. Depositories
5. Stock Exchanges.
6. Commodity Markets

2.8 International Financial Services Centres Authority

2.8.1 History

The International Financial Services Centres Authority (IFSCA) has been established on April 27, 2020 under the International Financial Services Centres Authority Act, 2019.

It is headquartered at GIFT City, Gandhinagar in Gujarat.

2.8.2 Role of IFSCA

- The IFSCA is a unified authority for the development and regulation of financial products, financial services and financial institutions in the International Financial Services Centre (IFSC) in India.
- At present, the GIFT IFSC is the maiden international financial services centre in India. Prior to the establishment of IFSCA, the domestic financial regulators, namely, RBI, SEBI, PFRDA and IRDAI regulated the business in IFSC.

Note: Other IFSC may come up in near future. So please stay updated from Current Affairs Magazine.

International Financial Services Centre:

- An IFSC enables **bringing back the financial services and transactions that are currently carried out in offshore financial centres** by Indian corporate entities and overseas branches/subsidiaries of Financial Institutions (such as banks, insurance companies, etc.) to India.
- IFSCs are intended to provide Indian corporates with **easier access to global financial markets,** and to complement and promote further development of financial markets in India.
- The first IFSC in India has been set up at the **Gujarat International Finance Tec-City (GIFT City) in Gandhinagar.**

2.8.3 Composition of the International Financial Services Centres Authority

- The International Financial Services Centres Authority will consist of **nine members, appointed by the central government.**
- They will include **chairperson** of the authority, **a member each from the RBI, SEBI, the Insurance Regulatory and Development Authority of India (IRDAI), and the Pension Fund Regulatory and Development Authority (PFRDA);** and **two members from the Ministry of Finance.** In addition, two other members will be appointed on the **recommendation of a Selection Committee.**

- **Term:** All members of the IFSC Authority will have a **term of three years, subject to reappointment.**

2.8.4 FAQ

Q1). Can an IFSC be set up in a special economic zone (SEZ)?

Ans. The SEZ Act 2005 allows setting up an IFSC in an SEZ or as an SEZ after approval from the central government.

Q2). Is International Financial Services Centres Authority a statutory body

Ans. International Financial Sevices Centres Authority (IFSCA) is a statutory body.

Q3). What is the Legal Provision for IFSC in India?

Ans. The Special Economic Zone Act, 2005 provides for the establishment of an IFSC in India.

2.9 The National Bank for Financing Infrastructure and Development (NaBFID)

2.9.1 History of NaBFID

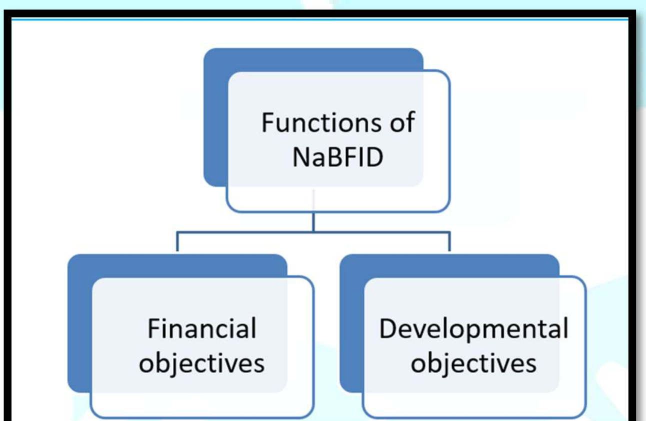
The National Bank for Financing Infrastructure and Development Bill, 2021 was introduced in Lok Sabha on March 22, 2021. **The Bill seeks to establish the National Bank for Financing Infrastructure and Development (NaBFID) as the principal development financial institution (DFIs) for infrastructure financing**.

NaBFID shall be regulated and supervised as an All India Financial Institution (AIFI) by the Reserve Bank under Sections 45L and 45N of the Reserve Bank of India Act, 1934.

Note – NaBFID shall be the fifth All India Financial Institution (AIFI) after EXIM Bank, NABARD, NHB and SIDBI.

2.9.2 Functions of NaBFID

NaBFID will have both financial as well as developmental objectives.



Financial objectives **will be to directly or indirectly lend, invest, or attract investments for infrastructure projects located entirely or partly in India**. Central government will prescribe the sectors to be covered under the infrastructure domain. Developmental **objectives include facilitating the development of the market for bonds, loans, and derivatives for infrastructure financing.**

Major Functions of NaBFID include:

I. Extending loans and advances for infrastructure projects,
II. Taking over or refinancing such existing loans.

III. Attracting investment from private sector investors and institutional investors for infrastructure projects.
IV. Organizing and facilitating foreign participation in infrastructure projects.
V. Facilitating negotiations with various government authorities for dispute resolution in the field of infrastructure financing.
VI. Providing consultancy services in infrastructure financing.

2.9.3 Management of NaFBID

NBFID will be governed by a Board of Directors. **The members of the Board include**:

- The Chairperson appointed by the central **government in consultation with RBI** (KV Kamath has been appointed as the first chairman of the NaBFID)
- A Managing Director
- Up to three Deputy Managing Directors,
- Two directors nominated by the central government
- Up to three directors elected by shareholders, and
- A few independent directors (as specified).

A body constituted by the central government will recommend candidates for the post of the Managing Director and Deputy Managing Directors. **The Board will appoint independent directors based on the recommendation of an internal committee.**

The NaBFID will be initially wholly owned by the government, but its stake will be reduced to 26% later.

2.9.4 Sources of Funds of NaBFID

NABFID may raise money in the form of loans or otherwise both in Indian rupees and foreign currencies, or secure money by the issue and sale of various financial instruments including bonds and debentures. NABFID may borrow money from: (i) central government, (ii) Reserve Bank of India (RBI), (iii) scheduled commercial banks, (iii) mutual funds, and (iv) multilateral institutions such as World Bank and Asian Development Bank.

Support from the central government

- **NABFID will be set up as a corporate body with authorised share capital of one lakh crore rupees.**
- The central government will provide grants **worth Rs 5,000 crore to NABFID by the end of the first financial year.**
- **NaBFID will help fund about 7,000 infra projects under the National Infrastructure Pipeline (NIP), which envisages an investment of Rs 111 lakh crore by 2024-25. The government has committed a Rs 5,000-crore grant over and above Rs 20,000-crore equity capital for NaBFID.**
- The government will also provide guarantee at a **concessional rate of up to 0.1% for borrowing from multilateral institutions, sovereign wealth funds, and other foreign funds.**
- Costs towards insulation from fluctuations in foreign exchange (in connection with borrowing in foreign currency) may be reimbursed by the government in part or full. Upon request by NABFID, the government may guarantee the bonds, debentures, and loans issued by NABFID.

2.10 Pension Fund Regulatory and Development Authority

The Government of India in the year 1999, commissioned a national project titled "OASIS" (Old Age Social & Income Security) to examine policy related to old age income security in India. While examining the reports under the OASIS, the need of a single authority was felt to establish a fool-proof system which is accepted by all political parties. Then came PFRDA as a pension regulator which works to promote and develop pension funds.

On 23rd August, 2003, Interim Pension Fund Regulatory & Development Authority (PFRDA) was established through a resolution by the Government of India to promote, develop and regulate pension sector in India.

However, The Pension Fund Regulatory & Development Authority Act was passed on 19th September 2013 and the same was notified on 1st February, 2014.

Therefore, PFRDA was established as an interim Pension Regulatory Authority in 2003 but declared a statutory body in 2014.

2.10.1 Functions of PFRDA

The Preamble of the Pension Fund Regulatory & Development Authority Act, 2013 describes the basic functions of the PFRDA as –

"To promote old age income security by establishing, developing and regulating pension funds, to protect the interests of subscribers to schemes of pension funds and for matters connected therewith or incidental thereto."

Given below are some key functions performed by the Pension Fund Regulatory and Development Authority in India:

- Focuses on promoting pension schemes in order to secure and serve the old age financial needs of retired persons on a sustainable basis
- Regulates the pension schemes to which PFRDA Act is applicable like Atal Pension Yojana
- Designates varied intermediate agencies such as Pension Fund Managers, Central Record Keeping Agency etc.
- The preamble formulates public notices to spread awareness about importance of pension schemes
- Initiates grievances portals and redressal mechanism for the pension subscribers
- Trains intermediaries about educating, popularizing, resolving queries of individuals for retirement related instruments & plans
- Works on settlement of disputes among the intermediaries and also between intermediaries & subscribers