

# Government to hold 100% stakes in NHB and NABARD

May 31, 2019

## Manifest Pedagogy

NABARD and NHB hold importance as regulatory bodies facilitating key government initiatives in agriculture, housing and upliftment of weaker sections. One must be able to recall key role, importance and functions of such bodies for both prelims and mains.

## In news

RBI sells its entire stake in NHB and NABARD to Government of India

## Placing it in the syllabus

Banking in India

## Static dimensions

- NHB – origin functions
- Nabard – origin functions (use Handout you made)
- All India Financial Institutions and its details

## Current dimensions

Government to hold a full stake in NABARD and NHB

## Content

### NHB – origin and functions

National Housing Bank **was set up in 1988 under the National Housing Bank Act, 1987**. It is a Government of India owned entity and an apex financial institution for housing. Following are the key highlights of NHB that how it originated

- It was the **Sub-Group on Housing Finance for the Seventh Five Year Plan (1985-90)** who identified the non-availability of long-term finance to individual households on any significant scale as a major lacuna impeding the progress of the housing sector and recommended the setting up of a national level institution.
- As a result, the **High-Level Group was set up under the Chairmanship of Dr. C. Rangarajan** to examine the proposal and which he recommended the setting up of National Housing Bank as an autonomous housing finance institution.
- Later the Union Government in 1987-88 in its budget announced the decision to establish the National Housing Bank (NHB) as an apex level institution for housing finance.
- Following that, the National Housing Bank Act 1987 was passed by the Parliament providing the legislative framework for the establishment of NHB.
- **The National Housing Policy, 1988 also** envisaged the setting up of NHB as the Apex level institution for housing.
- In pursuance of the above, NHB was set up in July 1988, under the National Housing Bank Act, 1987.
- The general superintendence, direction, and management of the affairs and business of NHB vest, under the Act, in a Board of Directors.

## **Vision**

Promoting inclusive expansion with stability in the housing finance market

## **Mission**

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

## Functions of NHB

- To operate as a principal agency to **promote housing finance institutions** both at local and regional levels and to provide financial and other support to such institutions.
- To **promote and develop specialized housing finance institutions for mobilizing resources** and extending credit for housing.
- To **provide refinance facilities to housing** finance institutions and scheduled banks
- To provide guarantee and underwriting facilities to housing finance institutions
- To formulate schemes for mobilization of resources and extension of credit for housing, especially catering to the needs of economically weaker sections of society
- To provide guidelines to housing finance institutions to ensure their healthy growth
- To co-ordinate the working of all agencies connected with housing

## Affordable Housing Fund (AHF)

It is **created under the National Housing Bank (NHB)**. It will be funded from priority sector lending shortfall and fully serviced bonds authorized by Central Government.

The **AHF shall be utilized for refinancing the individual housing loans** sanctioned and disbursed on or after 01-04-2017 falling **under rural and urban category** based on the demands received from the PLIs.

## Areas Covered under AHF are;

- **Urban** – All areas falling under the Statutory Town definition of Pradhan Mantri Awas Yojana Urban
- **Rural** – Any other areas not falling under the Statutory Town definition of Pradhan Mantri Awas Yojana – Urban

## **NABARD: Origin and its Functions**

### **Origin**

- The importance of institutional credit in boosting the rural economy has been clear to the Government of India right from its early stages of planning. Therefore, the Reserve Bank of India (RBI) at the insistence of the Government of India, constituted a Committee to Review the Arrangements For Institutional Credit for Agriculture and Rural Development (CRAFICARD) to look into these very critical aspects.
- The Committee was formed on 30 March 1979, under the **Chairmanship of Shri B. Sivaraman**, a former member of Planning Commission, Government of India.
- The Committee's interim report, submitted in 1979, outlined the need for a new organizational device for providing undivided attention, forceful direction and pointed focus to credit-related issues linked with rural development. Its recommendation was the formation of a unique development financial institution which would address these aspirations and **formation of National Bank for Agriculture and Rural Development (NABARD) was approved by the Parliament through Act 61 of 1981.**
- **NABARD came into existence in July 1982 by transferring the agricultural credit functions of RBI** and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC).
- It was dedicated to the service of the nation by the late Prime Minister Smt. Indira Gandhi on 05 November 1982. Set up with an **initial capital of Rs.100 crore**, its' paid-up capital stood at Rs.10,580 crore as on 31 March 2018. Consequent to the revision in the composition of share capital between Government of India and RBI, NABARD today is fully owned by Government of India.

### **Vision**

Development Bank of the Nation for Fostering Rural Prosperity.

## **Mission**

Promote sustainable and equitable agriculture and rural development through participative financial and non-financial interventions, innovations, technology and institutional development for securing prosperity.

## **Functions of NABARD**

### **Credit Functions:**

- Framing policy and guidelines for rural financial institutions.
- Providing
- credit facilities to issuing organizations
- Monitoring the flow of ground-level rural credit.
- Preparation of credit plans annually for all districts for identification of credit potential.

### **Development Functions:**

- Help cooperative banks and Regional Rural Banks to prepare development actions plans for themselves.
- Help Regional Rural Banks and the sponsor banks to enter into MoUs with state governments and cooperative banks to improve the affairs of the Regional Rural Banks.
- Monitor implementation of development action plans of banks.
- Provide financial support for the training institutes of cooperative banks, commercial banks, and Regional Rural Banks.
- Provide financial assistance to cooperative banks for building improved management information system, computerization of operations and development of human resources.

### **Supervisory Functions:**

- Undertakes inspection of Regional Rural Banks (RRBs) and Cooperative Banks (other than urban/primary cooperative banks) under the provisions of Banking Regulation Act, 1949.
- Undertakes inspection of State Cooperative Agriculture and Rural Development Banks (SCARDBs) and apex non-credit cooperative societies on a voluntary basis.
- Provides recommendations to Reserve Bank of India on the issue of licenses to Cooperative Banks, opening of new branches by State Cooperative Banks and Regional Rural Banks (RRBs).
- Undertakes portfolio inspections besides off-site surveillance of Cooperative Banks and Regional Rural Banks (RRBs).

### **Rural Infrastructure Development Fund**

Government of India created the RIDF in NABARD in 1995-96, with an initial corpus of Rs.2,000 crore. With the allocation of Rs.28,000 crore for 2018-19 under RIDF, the cumulative allocation has reached Rs.3,20,500 crore, including Rs. 18,500 crore under Bharat Nirman.

### **Eligible Activities under RIDF**

At present, there are 37 eligible activities under RIDF as approved by GoI. (Annexure I). The eligible activities are classified under **three broad categories** i.e.

1. Agriculture and related sector
2. Social sector
3. Rural connectivity

### **Eligible Institutions**

1. State Governments / Union Territories
2. State Owned Corporations / State Govt. Undertakings
3. State Govt. Sponsored / Supported Organisations
4. Panchayat Raj Institutions/Self Help Groups (SHGs)/ NGOs

(provided the projects are submitted through the nodal department of State Government, i.e Finance Department)

### **All India Financial Institutions (AIFI)**

- It is a group composed of development finance institutions and investment institutions that play a pivotal role in the financial markets.
- AIFI is also known as “**financial instruments**“, the financial institutions **assist in the proper allocation of resources, sourcing from businesses that have a surplus and distributing to others who have deficits** – this also assists with ensuring the continued circulation of money in the economy.
- The financial institutions **act as an intermediary between borrowers and final lenders**, providing safety and liquidity.
- They play a **salutary role in the financial markets through credit extension and refinancing operation activities** and cater to the long-term financing needs of the industrial sector.

### **List of AIFI regulated and supervised by RBI are;**

1. Export-Import Bank of India (EXIM Bank).
2. National Bank for Agriculture and Rural Development (NABARD)(100% stake given to Government of India)
3. National Housing Bank (NHB) (100% stake given to Government of India)
4. Small Industries Development Bank of India (SIDBI).

### **Government to hold a full stake in NABARD and NHB**

- Recently the Reserve Bank of India (RBI) has divested its entire stake held in National Housing Bank (NHB), the regulator for housing finance companies, and National Bank for Agriculture and Rural Development (Nabard) to the government, which now holds 100% in these entities.

- The RBI had 100% shareholding in NHB, which was divested for ₹1,450 crore.
- The **NABARD stake was divested in two phases** – RBI had a 72.5 percent stake in NABARD amounting to approximately 1,450 crore, of which **71.5 percent was divested in October 2010** for a value of 1,430 crore, and the residual shareholding was divested in February 2019 for 20 crore.
- RBI said that **divestment of its stake in NABARD and NHB has its basis in the recommendation of Narasimham Committee II and the Discussion Paper prepared by RBI** on Harmonizing the Role and Operations of Development Financial Institutions and Banks.