

A boost to rural entrepreneurship

The amendments passed by Parliament to the National Bank for Agriculture and Rural Development (NABARD) Act, 1981 support the government's push to boost the rural and agricultural sector. The amendments recognise the vital role of micro, small and medium enterprises (MSMEs), as defined under the MSME Development Act of 2006, in rural entrepreneurship and are intended to make financing easier for them.

The 1981 Act was enacted to establish a development bank to provide and regulate credit and other facilities in order to promote and develop agriculture, small-scale industries, cottage and village industries, handicrafts, and allied economic activities in rural areas.

In March 2017, the Finance Ministry listed a slew of factors which necessitated amendments to the 1981 Act.

In the statement of objects and reasons for the National Bank for Agriculture and Rural Development (Amendment) Bill of 2017, the government explained that with its expanding activities, NABARD needed to be provided with additional equity from time to time to enable it to meet its objectives of promoting rural development and sustainable rural prosperity. It said certain existing commitments of NABARD relating to the long-term irrigation fund and enhanced refinance support to cooperative banks required urgent infusion of equity.

The government reasoned that as the current authorised capital of NABARD is fully paid-up, there was a need to increase it to enable the Central government to infuse additional equity as and when required.

The Reserve Bank of India (RBI) holds 0.4% of the paid-up capital of NABARD. The remaining is held by the Central government. This causes conflict in the RBI's role as banking regulator and shareholder in NABARD, the statement said.

The government said its focus was on the employment potential in rural areas, medium enterprises, and handlooms. It proposed to include these enterprises in the ambit of refinance activities of NABARD.

The NABARD (Amendment) Bill, 2017 provides for empowering the Central government to increase the authorised capital of NABARD from 5,000 crore to 30,000 crore in consultation with the RBI. The amendments primarily seek to transfer the RBI's balance equity of 20,000 crore in NABARD to the Central government.

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