Rural infrastructure development fund (RIDF)

3.46 Agriculture and rural infrastructure sectors have been witnessing a deceleration in public investment since the Eighth Five-Year Plan. This is mainly because of the severe resource crunch faced by the States, which are primarily responsible for the development of agriculture and rural infrastructure. Compounding the problem was shortfall in the priority sector lending to agriculture by the SCBs. It is against this background that the Government of India announced a scheme for setting up of RIDF in 1995-96. Under the scheme, domestic commercial banks contribute to the Fund to the extent of their shortfall in their lending to the priority sectors. The main objective of the Fund is to provide loans to State Governments and State-owned corporations to enable them to complete on-going rural infrastructure projects. The Fund is being operated by the National Bank for Agriculture and Rural Development (NABARD). The corpus of RIDF I-IX amounted to Rs. 34,000 crore at end-March, 2004. The allocation during 2003-04 was Rs. 5,500 crore under RIDF-IX. Cumulative sanctions and disbursements under RIDF tranches I to IX amounted to Rs. 34,678 crore and Rs.21,067 crore, respectively at the end of March 2004. As on March 31, 2004, RIDF loans amounting to Rs. 14,004 crore were outstanding from various State Governments. Concerned over the significant shortfalls in the disbursal of RIDF funds, the scope of RIDF lending was extended to cover soil conservation, rural market yards, inland water ways, fish jetties, cold storages, godowns and more recently rural health centres, primary school buildings, mini hydel plants, citizen information centres under information technology in addition to irrigation projects and rural roads. Under RIDF IX, Government of India had advised NABARD to sanction loans for projects which directly benefit the farmers. Accordingly, 60 per cent of sanctions from the corpus of Rs.5,500 crore provided under RIDF IX was earmarked for flood protection, irrigation, agriculture and allied activities and system improvement and mini hydel power projects. Interest rate on loans under RIDF had been reduced from 13.0 per cent in 1995-96 to 11.5 per cent in 2000-01 and further to 8.5 per cent in

2002-03. Considering the declining trend of interest rates, the lending rates in respect of undisbursed amount of RIDF tranches IV to IX was restructured with effect from November 1,2003 with the approval of RBI. Accordingly, State Governments would be required to pay 7 per cent in respect of undisbursed amount of RIDF IV to VII and Bank Rate plus 0.5 percentage point in respect of RIDF VIII and IX. The banks would be paid 6 per cent in respect of the undisbursed amount of RIDF IV to VII uniformly and varying rates of interest between the Bank Rate and Bank Rate minus 3 percentage points in respect of RIDF VIII to IX. The rates of interest on deposits in the case of RIDF VIII and IX will continue to be linked to the shortfall in lending to agriculture. (Table 3.9)

Table 3.9 : Rate of interest on RIDF deposits

Sl. No.	Shortfall in lending to agriculture in terms of percentage to net bank credit	Rate of interest on the entire deposits to be made in RIDF VIII and RIDF-IX (Per cent per annum)
1.	Less than 2 percentage points	Bank Rate (6% at present)
2.	2 and above, but less than 5 percentage points	Bank Rate minus 1
3.	5 and above, but less than 9 percentage points	Bank Rate minus 2
4.	9 percentage points and above.	Bank Rate minus 3

3.47 Assistance under RIDF has resulted in the addition of 78.8 lakh hectares of irrigation potential and 1,46,535 kilometres of roads by the end of November, 2003.

3.48 In the Interim Budget for the year 2004-05, an announcement was made regarding the setting up of Lok Nayak Jai Prakash Narayan Fund (LNJPNF), also called Agricultural Infrastructure and Credit Fund, with NABARD with a corpus of Rs. 50,000 crore spread over three years (April 2004 to March 2007). The objective of the Fund is to create mechanism for efficiently aggregating resources from various providers of long term financing, facilitating resource flow from the market and channelising for agriculture/rural infrastructure creation. The Fund will thus be utilized for enhancing the efficiency, productivity and profitability of Indian agriculture so as to augment the income of rural households by strengthening infrastructure necessary for agriculture, agri-exports, diversification and value addition. Consequent to the operationalisation of the LNJPNF, the RIDF mechanism has been discontinued.

Kisan credit cards

3.49 Kisan credit cards (KCC) scheme was introduced in 1998-99 to improve credit delivery to farmers. The scheme is being operated by cooperative banks, regional rural banks (RRBs) and SCBs. The KCC scheme has been progressing well; and the number of cards increased from 6.1 lakh at the end of March 1999 to 413.8 lakh at the end of March 2004. Cooperative banks accounted for the bulk of the cards issued (58.6 per cent) followed by PSBs (32.0 per cent) and RRBs (9.4 per cent). The Government of India has set a time frame of March, 2004 for covering all eligible farmers under the scheme. For meeting this time frame, banks have been advised to work out a simple action plan. NABARD has advised banks to organise campaigns and banker-borrower meets to ensure coverage of all eligible farmers by March 31,2004. In addition, NABARD has taken the following initiatives.

- Provision of financial assistance under Cooperative Development Fund to cooperative banks for publicity campaigns.
- Financial support to RRBs under the R&D Fund to take up publicity campaigns in North-Eastern States. This scheme has also been extended to other parts of the country.
- Publicity through postal media. Under this scheme, printing order for 10 lakh Meghdoot post cards at a cost of Rs. 17.1 lakh has also been placed with the postal authorities.

3.50 In order to assess the impact of the scheme, RBI entrusted a survey to National Council of Applied Economic Research (NCAER), New Delhi. The survey conducted by NCAER covered 11 States by selecting 2 representative States from each of the five zones, that is, East, West, Central, North, South and one State from the North-East. From the 54 districts chosen for the survey, a total of 433 bank branches were selected and from each selected village a sample size of both KCC holders and non-KCC holders in the ratio of 10:2 was selected. The draft report of the survey is being examined.

3.51 Loans disbursed under KCC are now covered under Rashtriya Krishi Beema Yojana of the General Insurance Corporation. KCC holders are being provided personal accident insurance cover of Rs. 50, 000 for accidental death and Rs. 25, 000 for permanent disability.

Micro finance

3.52 Sustained access of the poor to micro-finance services is a key element in addressing the problem of poverty. Despite the availability of nearly 1.5 lakh retail credit outlets of the formal banking system, including co-operatives in the rural areas, nearly 36 per cent of rural households depended on informal sources of finance, according to the All-India Debt and Investment Survey of 1991. To strengthen credit delivery in the rural areas, the programme of linking self help groups (SHGs) of the rural poor with the banking system was launched in 1992 as a pilot project. Over the last decade, this flagship savings-led micro finance innovation has come to symbolise an enduring relationship between the financially deprived and the formal banking system. The focus under the SHG-bank linkage programme is largely on the rural poor comprising small and marginal farmers, agricultural and non-agricultural labourers, artisans and craftsmen. The uniqueness of the programme is the zero subsidy. There are three models of credit linkage of SHGs with banks, viz., SHGs formed and financed by banks, SHGs formed by formal agencies other than banks but financed by banks, and SHGs financed by banks using NGOs and other agencies as financial intermediaries. SHGs formed by formal agencies account for a predominant share of SHG-bank linkage (72 per cent). SHGs formed by banks and SHGs financed through NGOs account for 20 per cent and 8 per cent of the total, respectively.

3.53 The programme of micro finance has been making rapid strides. By March 2004, 10.8 lakh SHGs were linked with banks. Around 90 per cent of these SHGs are exclusively formed by women. Cumulative assistance extended by over 30,000 branches of 504 banks that participated in the programme amounted to Rs.3,904 crore by March 31, 2004. During the year 2003-04, 3.62 lakh new SHGs were extended loans by banks up from 2.56 lakh new SHGs that got such loans in 2002-03. Loans disbursed in 2003-04 amounted to Rs. 1,855 crore as compared with 1,022 crore disbursed in 2002-03 (Table 3.10). NABARD extended cumulative refinance support amounting to Rs.2,125 crore to these banks. The programme has been recognised as the largest and fastest growing micro-finance programme in the world. An impact assessment study conducted by the NABARD in 2000 revealed that there was a marked improvement in the

Table 3.10 : Progress of SHGs and bank linkage

Year	Total SHGs financed			Bank loan (Rs. crore)		
	During the year		Cumulative	During the year		Cumulative
	Amount	% Growth		Amount	% Growth	
1992-99	32,995		32,995	57.1		57.1
1999-00	81,780	148	114,775	135.9	138	193.0
2000-01	149,050	82	263,825	287.9	112	480.9
2001-02	197,653	33	461,478	545.5	89	1,026.3
2002-03	255,882	29	717,360	1,022.4	87	2,048.7
2003-04	361,731	41	107,9091	1,855.5	81	3,904.2

asset base and income and employment levels of households covered under micro finance.

3.54 Despite the rapid progress of micro finance, there are two main areas of concern. The first concern relates to the limited coverage of poor families. Out of the 52 million poor families, only 16 million poor families (30.8 per cent) were covered under the programme by March 31, 2004. The second area of concern is the uneven spread of the programme. Andhra Pradesh accounted for 39 per cent of the total SHGs linked to credit, followed by Tamil Nadu, Karnataka and Uttar Pradesh. At end March 2003, these four States accounted for 69 per cent of total SHGs linked to credit. To address these concerns, NABARD has intensified its efforts to scale up the programme in the States of Assam, Bihar, Chattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal, which account for the bulk of the poor. In addition, special efforts are being made to popularise the programme in North-Eastern and hilly States. NABARD had reduced interest rate on refinance to 6 per cent per annum for loans up to Rs. 50,000 per member to incentivise the banking system to step up credit flow to SHGs. Table 3.10 presents the progress of SHGs and bank linkage.