Rural infrastructure development fund (RIDF)

3.54 The RIDF was set up by the Government in 1995-96 for financing ongoing rural Infrastructure projects. The Fund is maintained by the National Bank for Agriculture and Rural Development (NABARD). Domestic commercial banks contribute to the Fund to the extent of their shortfall in stipulated priority sector lending to agriculture. The main objective of the Fund is to provide loans to State Governments and State-owned corporations to enable them to complete ongoing rural infrastructure projects. Till the end of 2003-04, nine tranches (I to IX) of RIDF have been completed. In the Interim Budget for the year 2004-05, an announcement was made regarding setting up of Agriculture Infrastructure and Credit Fund and discontinuation of RIDF mechanism. This decision was reconsidered; and the regular Budget presented on July 8, 2004 proposed revival of RIDF with a corpus of Rs. 8,000 crore during 2004-05. Accordingly, RIDF(X) is currently under implementation.

3.55 The total corpus of RIDF (RIDF I to RIDF X) amount to Rs. 42,000 crore. Cumulative sanctions and disbursements under various tranches of RIDF stood at Rs. 37,718 crore and Rs. 22,946 crore, respectively, on December 31, 2004. Out of 1,36,486 projects sanctioned under RIDF I to VIII, 84,584 projects have been completed. During the current year till December 31, 2004, sanctions and disbursements under RIDF X amounted to Rs. 3,048 crore and Rs. 52 crore, respectively.

3.56 The shortfall in disbursements of RIDF funds as compared to sanctions continues to remain a matter of concern in the implementation of RIDF. The Government has taken a number of steps to address this problem. The scope of RIDF has been widened to include activities such as rural drinking water schemes, soil conservation, rural market yards, rural health centres and primary schools, mini hydel plants, shishu shiksha kendras, anganwadis, and system improvement in the power sector. From RIDF V onwards, the ambit was extended to projects undertaken by Panchayat Raj institutions and projects in the social sector covering primary education, health and drinking water. The activities to be financed under RIDF X include minor irrigation projects/micro irrigation, flood protection, watershed development/ reclamation of waterlogged areas, drainage, forest development, market yard/godown, apna mandi, rural haats and other marketing infrastructure, cold storage, seed/agriculture/ horticulture farms, plantation and horticulture, grading and certifying mechanisms such as testing and certifying laboratories, etc., community irrigation wells for irrigation purposes for the village as a whole, fishing harbour/jetties, riverine fisheries, animal husbandry and modern abattoir.

3.57 As a measure of disincentive for non-achievement of the agricultural lending target, the rate of interest for the deposits made by the contributing banks in RIDF has been lowered and is charged in inverse proportion to the extent of shortfall in the agricultural lending vis-à-vis the stipulated target of 18 per cent.

3.58 Keeping in view the declining interest rates scenario and the need to further rationalise the interest rate structure under RIDF, the lending and deposits rates in respect of the undisbursed amounts of RIDF IV to IX have been restructured, with effect from November 1, 2003. Accordingly, the State Governments will be required to pay 7 per cent in respect of the undisbursed amounts of RIDF IV to VII and Bank Rate plus 0.5 per centage point in respect of RIDF VIII and IX. The banks will be paid 6 per cent in respect of the undisbursed amounts of RIDF IV to VII, uniformly and varying rates of interest between the Bank rate and Bank Rate minus 3 per centage points (i.e. currently varying between 6 per cent and 3 per cent) in respect of RIDF VIII and RIDF IX.

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

3.59 In the case of RIDF VIII and IX, therefore, the rates of interest on deposits will continue to be linked to the shortfall in lending to agriculture (Table 3.9). The lending and deposits rates of interest in respect of RIDF X are as applicable to RIDF IX.

Kisan credit cards

3.60 The Kisan credit cards (KCC) scheme, introduced in 1998-99 aims at providing crop loans to farmers in a flexible and cost-effective manner. The scheme is being implemented in all the States and Union Territories by all commercial banks, RRBs, state co-operative banks, central co-operative banks, and primary agricultural co-operative societies. Beneficiaries covered under the KCC are issued with a credit card and a pass book or a credit card-cum-pass book incorporating the name, address and particulars of land, borrowing limit, and the validity period. Production credit limits are fixed taking into account the entire production credit needs for a full year plus ancillary activities relating to crop production. Sub-limits are also fixed at the discretion of lending banks. Crop loan/ short-term credit is in the form of a revolving cash credit facility involving any number of drawals and repayments within the limit fixed on the basis of operational land holding, cropping pattern and scale of finance. Till recently, investment credit requirements of farmers remained outside the purview of KCC, causing additional cost and procedural inconvenience to farmers. To address these deficiencies in the KCC scheme, NABARD revised the scheme in August 2004 to cover term loans for agriculture and allied activities. Under the KCC, while the short-term as well as working capital credit is repayable in 12 months, the term loan is to be repaid within a maximum period of five years. Conversion/re-schedulement of loans is permitted in case of damage to crops due to natural calamities. The number of KCCs issued was 414 lakh at end-March, 2004. As on September 30, 2004, cumulative issue of KCCs amounted to 435.61 lakh. Highest number of KCC were issued by co-operative banks (258.56 lakh), followed by commercial banks (132.43 lakh) and RRBs (44.63 lakh).

3.61 At the instance of the RBI, the National Council of Applied Economic Research (NCAER) conducted a survey for assessing the impact of the KCC scheme. The survey has brought out several advantages of the KCC scheme in terms of increase in the flow of credit to the agriculture sector, reduction in borrowings from the informal sector, significant savings in time spent on obtaining credit and an overall reduction in cost of credit delivery. The survey had identified areas requiring policy initiatives to make the scheme more effective. These relate to restrictions imposed on the issuance of KCCs by banks, restrictions on use of KCCs only at card issuing branches, non-availability of incentives for timely repayments, low credit limits and low awareness regarding the provision of personal accident insurance scheme. The RBI has advised the Indian Banks Association to examine these suggestions and come up with remedial measures.

Micro-finance

3.62. The programme of linking self-help group (SHGs) of the rural poor with the banking system was launched as a pilot project in 1992. Over the years the SHG–bank linkage programme has emerged as the major micro-finance programme in the country. 560 banks including 48 commercial banks, 196 RRBs and 316 co-operative banks are now actively involved in the operation of this programme. The programme has been providing the rural poor access to the formal banking system and has achieved several milestones in terms of gender sensitisation, empowerment and poverty alleviation. The programme provides thrift linked credit support to the members of SHGs. While the programme directly benefits the members, it also helps banks in reducing their transaction costs as well as risk in delivering small loans. The Budget for 2004-05 has emphasised the need for promoting the programme more vigorously and for the graduation of SHGs from consumption or production credit to credit for starting micro-enterprises. The Budget has set an indicative target of credit linking 5.85 lakh SHGs by end-March, 2007.

3.63 The number of SHGs linked to banks reached 10.79 lakh by March 31, 2004, covering an estimated 167 lakh poor families. A redeeming feature of the programme is that 90 per cent of the groups linked with banks are exclusively women groups. Cumulative disbursements of bank loans to these SHGs amounted to Rs. 3,904 crore at end-March, 2004 with an average loan of Rs. 36,179 per SHG and Rs. 2,412 per family. Refinance support extended by NABARD amounted to Rs.2, 550 crore. During the current year (up to December 31, 2004), 1.97 lakh new SHGs were provided with bank loans amounting to Rs. 1,134 crore (Table 3.10).

3.64 The RBI has been taking a pro-active role in promoting micro-finance. It set up four Groups in 2002 to look into various aspects of micro-financing. Based on the re-commendations made by these Groups, the RBI announced that banks should provide adequate incentives to their branches in

Table 3.10 : Progress of SHGs and bank linkage						
Year	Total SHGs financed			Bank loan		
	During the year		Cumulative	During the year		Cumulative
	Amount (Number)	% Growth	(Number)	Amount (Rs. crore)	% Growth	(Rs. crore)
1998-99	32,995		32,995	57		57
1999-00	81,780	148	1,14,775	136	138	193
2000-01	1,49,050	82	2,63,825	288	112	481
2001-02	1,97,653	33	4,61,478	545	89	1026
2002-03	2,55,882	29	7,17,360	1,022	87	2,049
2003-04	3,61,731	41	1,07,9091	1,856	81	3,904
2004-05$	1,96,944	-	12,76,035	1,134	-	5,038

$ up to December 31, 2004.

making the procedures for financing the SHGs simple and easy. Based on the recommendations of the Vyas Committee, the RBI, in its annual policy statement for 2004-05, indicated that micro-finance institutions would not be permitted to accept public deposits, unless they comply with the extant regulatory framework.