Ind. Jn. of Agri. Econ.
Vol.69, No.1, Jan.-March 2014

Revisiting Rural Infrastructure Development Fund (RIDF) Scheme

C.L. Dadhich*

I

THE SCHEME

RIDF Scheme was instituted in 1995 to finance State Governments for completion of on-going projects to the extent of shortfall in mandatory stipulation for agricultural advances by commercial banks under priority sector advances. (Government of India, 1995). Accordingly RIDF was set up in NABARD with an initial allocation of ` 2000 crore under RIDF I for the year 1995-96. Under the scheme commercial banks are required to deposit with NABARD amount allocated to them for the shortfall in their mandatory stipulation relating to agricultural advances at an interest lower than prevailing interest rates on priority sector advances for onward funding to State Governments and State owned corporations. RIDF is constituted with its corpus being announced every year in Union Budget in the form of aggregate allocation which is allocated to banks during the year on the basis of level of their shortfall in meeting the mandatory stipulations relating to priority sector lending.

The main objective of the RIDF was to indirectly pressurise commercial banks to meet the priority sector stipulations through interest rate policy instrument i.e. lower interest on deposits under RIDF as compared to net returns on priority sector advances. Interest rates have been rationalised from time to time to discourage banks to deposit under RIDF as compared to lending under priority sector advances. However with effect 01 April, 2012, the interest rate payable to banks on deposits placed into NABARD for RIDF has been linked to Bank Rate prevailing at that point of time.

II

PROGRESS AND PERFORMANCE

Since its inception in 1995 RIDF scheme has made rapid strides in terms of allocations, number of projects, amount sanctioned and amount disbursed (Table 1). It may be observed from Table 1 that with initial allocation of ` 2000 crore for the

*Former Director of Rural Economics, Reserve Bank of India, Mumbai.
The author is thankful to Dr. R.B. Barman for his valuable comments on the earlier draft.

year 1995-96, the annual allocation gradually increased to ` 20,000 crore under RIDF XVIII (2012-13). Over the years allocations aggregated to ` 1,72,500 crore. Number of projects sanctioned aggregated to about 5 lakhs. Similarly cumulative amount sanctioned reached to ` 1,80,000 crore of this about ` 18,000 crore was sanctioned under Bharat Nirman and about ` 1,62,000 crore for projects. As against this, cumulative disbursements under RIDF scheme amounted to ` 1,29,463 crore forming about 72 per cent of amount sanctioned.

TABLE 1. TRANCHE-WISE DETAILS OF RIDF (AS AT END-MARCH 2013)

(*Amount in ` crore*)

Tranches (1)	Year (2)	No. of Projects (3)	Corpus (4)	Sanctioned (5)	Disbursed (6)	Percentage of amount disbursed to sanctioned (7)
I	1995-96	4,168	2,000	1,906	1,761	92.4
II	1996-97	8,193	2,500	2,636	2,398	91.0
III	1997-98	14,345	2,500	2,733	2,454	89.8
IV	1998-99	6,171	3,000	2,903	2,482	85.5
V	1999-00	12,106	3,500	3,435	3,055	88.9
VI	2000-01	43,168	4,500	4,489	4,071	90.7
VII	2001-02	24,598	5,000	4,582	4,053	88.4
VIII	2002-03	20,887	5,500	5,950	5,148	86.5
IX	2003-04	19,544	5,500	5,638	4,916	87.2
X	2004-05	16,482	8,000	7,651	6,569	85.9
XI	2005-06	29,763	8,000	8,311	7,010	84.4
XII	2006-07	41,774	10,000	10,028	8,614	86
XIII	2007-08	36,810	12,000	12,557	10,528	84
XIV	2008-09	85,428	14,000	14,641	11,843	81
XIV	2009-10	38,946	14,000	15,574	10,894	70
XVI	2010-11	41,779	16,000	18,213	11,042	61
XVII	2011-12	18,162	18,000	20,298	8,605	42.4
XVIII	2012-13	46,695	20,000	20,588	5,155	25.0
Bharat Nirman			18,500	18,500	18,500	
Total		509109	1,72,500	1,80,583	1,29,463	

Source: NABARD

As mentioned earlier since the inception of RIDF in 1995 around 5 lakhs projects involving an amount of ` 162083 crore was sanctioned under various trenches. Of the cumulative RIDF loans sanctioned as on 31 March 2013, agricultural and allied sectors accounted for 42 per cent (including 29 per cent irrigation) followed by rural roads 32 per cent social sector 14 per cent and bridges 12 per cent (Table 2).

State-wise highest amount sanctioned (` 15412 crore or 8.4 per cent) was to Andhra Pradesh closely followed by Uttar Pradesh (` 14228 crore or 7.9 per cent), Gujarat (` 12365 crore or 6.9 per cent), Madhya Pradesh (` 12042 crore or 7.7 per cent) and Rajasthan (` 11466 crore or 6.4 per cent). These five states together accounted for 35.8 per cent of amount sanctioned under the scheme. Contrastingly, Manipur, Mizoram and Sikkim received less than ` 500 each, since inception of RIDF lowest amount was in case of Manipur at ` 329 crore, surprisingly enough the developed states received the lion's share. Of late the share of north-eastern states has been looking up (NABARD, 2013).

TABLE 2. STATE-WISE UTILISATION OF RIDF (I TO XVIII) (AS ON 31 MARCH 2013)

(` *crore*)

SI. no. (1)	States (2)	Sanctioned amount (3)	Phased amount (4)	Actually drawn (5)	Utilisation (per cent) (6)
	South Zone				
1	Andhra Pradesh	15,412.52	13,386.39	11,435.13	85
2	Karnataka	7,796.60	6,457.73	5,729.21	89
3	Kerala	5,330.80	4,309.08	3,160.97	73
4	Tamil Nadu	11,208.36	9,406.65	8,569.63	91
5	Puducherry	380.48	325.99	158.67	49
	West Zone				
6	Goa	644.25	470.45	485.01	103
7	Gujarat	12,365.99	10,564.86	9,646.97	91
8	Maharashtra	10,014.47	8,214.87	7,021.50	85
	North Zone				
9	Haryana	3,847091	3,078.17	2,607.70	85
10	Himachal Pradesh	3,929.49	3,200.60	2,711.72	85
11	Jammu & Kashmir	4,378.42	4,202.28	3,401.26	81
12	Punjab	5,788.34	4,941.01	4,000.37	81
13	Rajasthan	11,466.83	10,633.42	7,377.61	69
14	Uttar Pradesh	14,228.24	11,614.02	10,343.07	89
15	Uttarakhand	3,325.32	2,053.54	2,179.58	106
	Central Zone				
16	Chhatisgarh	2,957.44	1,950.60	1,705.41	87
17	Madhya Pradesh	12.042.20	9,422.60	7,603.73	81
	East Zone				
18	Bihar	7,025.42	5,965.62	3,965.22	66
19	Jharkhand	4,352.30	3,658.69	3,124.15	85
20	Odisha	8,621.08	6,802.14	5,088.48	75
21	West Bengal	9,931.35	6,757.30	6,046.99	89
	North East and Sikkim				
22	Arunachal Pradesh	759.94	759.93	670.94	88
23	Assam	2,596.03	2,428.05	1,727.96	71
24	Manipur	329.36	205.34	148.60	72
25	Meghalaya	607.87	596.73	450.87	76
26	Mizoram	387.34	309.67	300.55	97
27	Nagaland	708.79	680.46	386.56	57
28	Tripura	1,169.47	931.93	615.70	66
29	Sikkim	476.34	462.21	299.17	65
	RIDF Total	1,62,082.95	1,33,790.27	11,0962.73	83
	Bharat Nirman	18,500.00	18,500.00	18,500.00	100
	GRAND TOTAL	1,80,582.95	1,52,290.27	1,29,462.73	85

Source: NABARD Annual Report.

III

IMPLICATIONS

While it has benefited the organised sector, viz. commercial banks, State Governments, Union Government, the unorganised farmers suffered heavily.

3A *Commercial Banks Benefited Through Escape Route*

Despite rationalisation of interest rate deposits with RIDF is a favorable business proposition for banks as otherwise they are required to provide crop loans at 7 per cent interest under priority sector lending (4 per cent interest from farmers and 3 per cent interest subvention from Government) Incidentally they get 6.5 per cent interest on RIDF deposits at lower end of shortfall spectrum. However at aggregate level during 2012-13 interest paid on RIDF deposits worked out to 6.0 per cent. (NABARD 2013). As on the last reporting Friday of 2012 the advances of public sector banks to agriculture and allied sector under priority sector was 15.5 per cent and that of private sector banks was 14.5 per cent as against the target of 18 per cent. At disaggregate level, 15 out of 26 public sector banks could not meet the target, while 13 private sector banks failed to achieve the stipulated target. Interestingly enough, banks get benefited on shortfall in meeting the target through RIDF scheme. As a result shortfall continues to persist on perpetual basis.

3B *State Governments Recipient of Tangible Benefits*

As mentioned earlier RIDF was among others designed to provide finance to State Governments to enable them to take up incomplete rural development projects, RIDF has emerged as additional source of concessional funding for the State Governments State Governments are financed at 1.5 percentage amount lower than Bank Rate under RIDF which are otherwise heavily dependent on the Union Governments for funding at higher than Bank Rate. Over the years RIDF has emerged as an attractive financing option for the State Governments.

3C *Union Government Recipient of an Intangible Benefit*

RIDF Scheme has also benefited Union Governments albeit indirectly. Normally Union Government is expected to make budgetary provisions for providing financial assistance to State Governments for taking up rural development projects in general and rural infrastructural projects in particular. This would have in turn aggravated fiscal deficit to the tune of ` 20,000 crore annually at the present level of allocation. By way of RIDF Scheme Union Government has not only helped itself on a regular basis but also helped other organizations such as banks and state Governments etc. at the cost of farmers. Further in lieu of RIDF deposits banks were expected to lend addition loan to the extent of shortfall under priority sector lending to farmers. This would have further enhanced Union Government’s interest subverition bill by 3 per cent of additional lending. It goes without saying that as a result of RIDF Scheme, Union Government averted incidence of fiscal deficit at least to some.

3D *Farmers A Helpless Lot*

As a result of RIDF Scheme Indian farmers has been deprived of institutional loans. Over the years, the scheme has deprived of farmers by a staggering sum of ` 180,000 crore with annual deprivation of ` 20,000 crore in recent years. At times the situation leads to either no investment in agricultural at farmer's level or pushing the farmers at the mercy of non-institutional lenders with exorbitant interest cost. The argument that investments made by the State Government in rural infrastructure projects will ultimately benefits farmers is acceptable but this could have been achieved with budgetary resources as well. Short term and medium term investment in agriculture is of course of crucial importance as compared to long term investment such as rural infrastructure for agricultural development. Private investments at farmer's level is of utmost importance rather necessary for rural development, while rural infrastructure development is second best alternative. The quantum of deprivation is actually much higher on taking into account undiluted definition of priority sector advances, In this context it is important to note that under the financial sector reforms definition of priority has been diluted significantly by adding a number of activities under priority sector (Raju 2013). Rather than enforcing priority sector stipulations strictly, Union Government adopted a soft option which benefited organized sector in a big way at the cost of farmers, who are unorganized and helpless. In short, RIDF scheme is somewhat similar to a Rajasthani saying that whenever a potter is not able to settle scores with his wife he goes out to scold and beats up his poor donkey. Similarly since RBI is not squaring up banks to meet the mandatory stipulations so the way out is to take the mandated share of the poor farmers and pass it on to the State Governments. Taking into account average size of agricultural loan per borrower account under priority sector during 1994-95 allocation of ` 2000 crore to RIDF had deprived off 20 lakh farmers from bank credit. In subsequent years situation aggravated with growing trends in RIDF allocations that reached staggering level of ` 20,000 crore in 2012-13 (Dadhich 2014). Depriving farmers from their earmarked share in credit and financing the same to State Government is some sort of robbing Peter to pay Paul. Needless to say that in India where out of the 14 crore farm families only 50 per cent have access to institutional credit. RIDF scheme has done untold damage to the distributional justice. This has happened mainly because banks prefer to invest in RIDF (Vyas 2001). It goes without saying that priority sector is somewhat losing proposition owing to higher transaction cost of financing of a large number of small sized loans involving higher credit risks, whereas at the existent interest rates on RIDF deposits investment in RIDF is a highly paying business proposition. This apart as a result of dilution of priority sectors through horizontal and vertical expansion of activities or items in priority sector lending basket (Shete 2001), a large chunk of borrowers from higher end of borrower spectrum have crowded in causing marginalization of genuine or erstwhile borrowers of priority sector advances. It goes without saying that inclusion of new items in the realm of priority sectors has facilitated concentration of credit at upper end of borrower spectrum. In this context, it is interesting to note an unsavoury findings of NABARD that commercial banks who now take major load of agricultural credit shows a tendency to prefer "deepening" over "widening" (NABARD 2013).

The diversion of bank credit to RIDF and dilution of priority sector concept have caused untold damage to inclusive growth in general and financial inclusion in particular. RIDF and dilution of priority sector lending are the direct outcome of financial sector reforms. In the process farmers became Cindrella (Mujumdar 2001). The analysis of RBI in 2012 also noted that though number of accounts in weaker sections category witnessed higher growth during 2000s as compared to early 2000's the amount outstanding under small and marginal farmers, DR1 beneficiaries as well as SHGs categories decelerated during late 2000s. Thus within priority sectors especially within agriculture, majority of loans are concentrated in relatively large accounts. In this context it was suggested by RBI that there is need to change credit concentration within the priority sector in order to further facilitate the process of inclusive growth (RBI 2012).

IV

SOME BETTER POLICY SOLUTIONS

Intriguingly, India being a pioneer in evolving its own brand of the institutional framework for rural credit delivery system (Mujumdar, 2001) has taken a U turn in the wake of financial sector reforms and placed rural credit delivery system on the back burner. The foregoing analysis revealed that as a result of introduction of RIDF scheme lakhs of farmers have been deprived of their mandated share of credit. Plausibly enough, RIDF has little relevance particularly on the introduction of trading facility in priority sector advances among the banks and advent of business correspondent scheme under financial inclusion programme. Instead of depending on escape routes like RIDF scheme and dilution of priority sectors RBI should square up banks and enforce mandatory stipulations relating to priority sector advances in letters and spirits as is being done in case of Cash Reserve Ratios (CRR). In order to enlarge the flow of credit to small and marginal farmers in general and weaker sections in particular. It is imperative that the scope of the priority sectors particularly for agricultural advances should be reverted back to the pre-reform period of 1980s. Nonetheless the pressure for widening the scope of priority sector will continue till we turn priority sector lending a viable and attractive proposition. In this context, we need to identify main irritants that plagued viability and sustainability of priority sector lending. Important among these irritants are: (i) large number of small sized borrower accounts causing higher transactions cost. (ii) higher incidence of non-performing assets and (iii) subsidised rate of interest.

The former two are the deep rooted irritant which cannot be tackled immediately. However so far interest rate is concerned it is possible to charge somewhat higher interest rate as farmers including other weaker sections borrowers have been already paying higher rate of interest for sizable proportion of their borrowing from informal sources, For them availability of credit is more crucial than cost of credit. In this context, it is suggested that like micro-credit, priority sector credit should also be made available on higher rate of interest. The higher rate of interest should include priority sector specific base rate plus borrower specific charges. The higher rate of interest should take care of other two irritants viz. higher transaction cost and higher incidence of non performing assets. Sooner, than later this measure will turn priority sector lending an attractive business proposition and help meet mandatory targets.

The gap between proposed higher lending rate and ability to pay particularly for small and marginal farmers should be taken care by graded interest rate subvention rather than present system of across the board interest rate subvention. Concerted efforts are also needed to improve the credit worthiness of priority sector borrowers through skills development programme and financial literacy campaign. In case still shortfall persists, entire amount of shortfall except shortfall in agricultural indirect advance should be deposited with NABARD in Micro Finance Development Fund at interest rate not more than half of the net returns on priority sector lending for providing assistance under self help group bank linkages programme or to MFIs. This will ensure distributional justice. So far shortfall in indirect agricultural advances is concerned, it may be deposited in RIDF with NABARD. Since financing from RIDF helps indirectly to agriculture, it will be appropriate to use only the shortfall of indirect agricultural advances.

However, if it is inevitable to take support of banking sector, it should be done by enhancing Statutory Liquidity Ratio (SLR) for investment in rural infrastructure projects. Alternatively separate line of credit on pattern of food credit may be instituted for financing such projects.

V

SUMMING UP

In 1995, RIDF was instituted in NABARD with initial allocation of ` 2000 crore, sourced from shortfall in mandatory stipulations relating to advances to agriculture and allied sectors under priority sectors lending scheme of commercial banks to finance state Government to enable them to take up incomplete rural development projects Allocation was gradually increased with burgeoning shortfall in stipulations and reached to ` 20000 crore in 2013. The scheme has benefited concerned organizations, viz., banks, State Governments and Union Government in one way or other. However, farmers got the raw deal with a deprivation of funds amounting to ` 1, 80,000 crore since the inception of the scheme. The analysis reveals that annually about 20 lakh farmers have missed the opportunity of entering to the banking net. The dilution of priority sectors through horizontal and vertical expansions of activities or items has crowded out a large chunk of small and marginal farmers from banking net. This will enlarge the disparities of assets and income rather than reducing the same. Funding under RIDF has accentuated regional imbalances if not the intra-regional imbalances.

It is suggested that Reserve Bank should square up with banks and enforce the priority sector stipulations as is being done in case of Cash Reserve requirements. Farmers should not suffer because of lack of will to enforce priority sector stipulations. The higher rate of interest on priority sector advances will go a long way in making such lending an attractive business proposition. The analysis also suggested that funding of State Governments should be accomplished with budgetary resources rather than by grabbing the farmer's share. As investment in agriculture by farmers is more important than investment for agriculture for making full utilization of infrastructure, it is high time that rural infrastructure projects are financed through budgetary resources or through separate line of credit other than funds derived from priority sector.

REFERENCES

Dadhich, C.L. (2001), Directed Lending: A Critique, 23rd Bank Economist Conference, Volume, Allahabad Bank.

Dadhich, C.L. (2002), Redesigning Priority Sector Operation in a Liberalised Regime, 24th Bank Economists Conference Volume – Corporation Bank.

Dadhich, C.L. (2014), Rural Castles Built at Farmer's Cost, Business Standard, 19 March 2014.

Government of India (2013), Economic Survey (various years).

Mujumdar, N.A. (2001), in Shete (2001) *op.cit.*

National Bank for Agriculture and Rural Development (2013), Annual Report (various years).

Raju B.Y. (2013), Priority Re-prioritized or De-prioritized? Agricultural Banking – Getting the Perspective Right.

Reserve Bank of India (2013), Annual Report (various years).

Reserve Bank of India (2012), Report on Trends and Progress of Banking in India (various years).

Shete, N.B. (2001), Priority Sector Advances of Banks During the Post-Reform Period, Working Paper, National Institute of Bank Management, Pune.

Vyas, V.S. (2001), in Shete (2001), *op.cit.*