

Rural Infrastructure in West Bengal : The Role of NABARD

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Abstract

The objective of this paper is to evaluate the role played by the NABARD in the development of rural infrastructure in West Bengal. The need for an adequate endowment of rural infrastructure cannot be overemphasized so far as the attainment of higher agricultural growth is concerned. A strong base of infrastructure is essential for increased productivity of capital and labour. In addition, it also helps in checking the migration of rural population to the urban areas. In our country where more than 60% of the population live in rural areas and nearly two-thirds of the work force derive their livelihood from agriculture, the rural infrastructure assumes crucial importance. However, one of the basic limitations to create adequate infrastructure is lack of resources. So, this paper tries to show how to overcome the limitations of rural infrastructure fund.

Introduction

The objective of this paper is to evaluate the role played by the NABARD in the development of rural infrastructure in West Bengal. The need for an adequate endowment of rural infrastructure cannot be overemphasized so far as the attainment of higher agricultural growth is concerned. The Ninth Plan also envisages a targeted growth rate of agriculture at 4.5%. A strong base of infrastructure is essential for increased productivity of capital and labour. In addition, it also helps in checking the migration of rural population to the urban areas. In our country where more than 60% of the population lives in rural areas and nearly two-third of the work force derives their livelihood from agriculture, the rural infrastructure assumes crucial importance. However, one of the basic limitations to create adequate infrastructure is lack of resources. After independence, all the States had taken up a large number of irrigation projects and rural projects without keeping into account the available resources. This has resulted in the funds being thinly spread over a large number of projects with the consequence that a major portion of the projects remained incomplete. Over these years, a huge amount of funds that had been pumped into the irrigation sector without yielding any results had proved to be a drain on the economy. The difficult financial position of the

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State Governments is primarily responsible for the poor development and maintenance of rural infrastructure. Many well-intentioned infrastructure projects were found languishing for want of resources. Moreover, the commercial banks which were assigned the role of channeling at least 18% of their total lending to agriculture were not able to fulfil their commitment.

Creation of Rural Infrastructure Development Fund (RIDF):

It was observed that public sector investment in agriculture has been on the decline and is causing a lot of concern. Recognizing the need for bridging the gap, the Union Finance Minister, while presenting the budget for the year 1995-96 on March 15, 1995, had indicated :

“Inadequacy of public investment in agriculture is today a matter of general concern. This is an area which is the responsibility of the States but many States have neglected investment in infrastructure for agriculture. There are many rural infrastructure projects which have been started but are lying incomplete for want of resources. They represent a major loss of potential income and employment to the rural population.”

With the launching of financial sector reforms and introduction of the prudential norms, the commercial banking system is found to be cautious in extending credit to the agriculture sector to attain the target level of 18% of net bank credit.

In order to tackle the twin problems of shortfall in priority sector lending by the commercial banks and declining capital formation in the agriculture sector, the Union Finance Minister mooted the idea of setting up “Rural Infrastructure Development Fund” (RIDF) in the NABARD from 1st April 1995. The Fund started with an initial corpus of Rs 2,000 crore.

Funding of the RIDF

The Fund was set up with contribution from all scheduled commercial banks excluding the foreign banks operating in India to the extent of the shortfall in achieving the sub-target fixed for agriculture (18% of net bank credit) subject to a maximum of 1.5% of net bank credit.

The NABARD places demands for the funds with the contributing banks as and when it is required to disburse loan to the State Government and the Government owned corporations. The contributions are received in the form of a fixed deposit for a period of 5 years at an interest of 12% p.a. at the initial stage of formation of the RIDF.

Under the fund of the RIDF, loans were sanctioned by the National Bank to the Government of West Bengal at an interest of 12% per annum.

During 1995-96 the total amount disbursed under the RIDF I in West Bengal stood at Rs

81.83 crore which further rose to Rs 135.40 crore and Rs 149.96 crore under the RIDF II & III, respectively. But it declined by Rs 0.45 crore during 1998-99. Similarly, during 1999-00 the total amount disbursed under the RIDF V was Rs 97.79 crore which declined by Rs 51.72 crore as compared to the previous year 1998-99 (RIDF IV) at an interest of 10.5% p.a. (Table 1). Same way total disbursement under RIDF- VI, VII, VIII, X , XI, XII, and XIII were Rs. 423.88 crore , Rs. 276.78 crore , Rs. 224.24 crore, Rs. 44.41 crore, Rs. 73.25 crore, Rs. 25.82 crore, Rs. 35.57 crore, Rs. 37.74 crore respectively (Table 2, Table 3). So it is clear that total amount of disbursement under RIDF XI, XII, and XIII significantly declined as compared to previous RIDF project.

Terms and Conditions:

- i) The State Government has the sole authority to utilise the loan amount and specifically, for the purpose for which it is sanctioned.
- ii) The State Government is required to execute and complete the projects within the stipulated time frame.
- iii) The loan is sanctioned against the irrevocable letter of authority (mandate) to be furnished by the State Governments in favour of the RBI to debit their Current Account upon the requisition issued by the National Bank in cases of default in repayment of the principal and / or the payment of interest.
- iv) The loan carries an interest rate of one half of one percentage point above the rate payable by the National Bank on deposits received by it from the banks.
- v) The loan is meant for a period of five years with an initial grace period of two years.
- vi) The loan amount is restricted to either 50% of the revised/updated project cost or the balance cost to be incurred for completion of the project whichever is less.
- vii) The State Government is required to furnish to the National Bank an audited statement of accounts within 12 months from the close of the financial year, in respect of the projects financed.
- viii) After completion of the projects, the State Government is required to provide adequate funds for their maintenance.

Impact of the RIDF

The impact of the fund in West Bengal is salutary. A number of rural infrastructure projects

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have been completed by the NABARD under the different phases of the RIDF.

Under the RIDF I (1995-96) :

The RIDF I (1995-96) went to benefit only the irrigation and watershed management schemes. Uptil now, four minor irrigation schemes, covering an additional area of 3,927 hectares, one medium irrigation scheme covering 2,227 hectares and four watershed management schemes covering an area of 1,18,616 hectares have been completed (Table1).

Under the RIDF II (1996-97) :

Under this Fund, as many as 2,967 minor irrigation structures with a potential of more than 30,000 hectares have been installed and the farmers have started to reap the benefits of the completed projects. 55 rural road projects with length of more than 425.70 Km of rural road were either re-laid or widened and strengthened. A total of 21 rural bridge projects were completed with financial assistance from the RIDF. This has significantly improved the communication among villages, markets and the rural service areas.

Under the RIDF III (1997-98) :

Under this Fund, as many as 21 Flood protection and watershed management schemes, covering an area of 43,076 hectares and 17 minor irrigation schemes with a potential of 5,927 hectares were completed and the benefits have started accruing. Besides, 53 rural road projects covering a total length of more than 456.08 km. have been either re-laid or widened and strengthened. A total of 4 rural bridge projects have also been completed under this fund.

Under the RIDF IV (1998-99) :

A total of 13 flood protection and 2 drainage schemes, covering an area of 33,422 hectares have been completed as on date and the benefits have started forthcoming . Besides, 20 rural road projects with a length of more than 136.55 km have been either re-laid afresh or widened and strengthened.

Under the RIDF V (1999-00) :

As many as 5 flood protection schemes and one drainage scheme, benefiting an area of 21,976 hectares have been completed as on date and visible benefits have already begun to flow.

The cumulative sanction under RIDF, till 21st November 2005, is Rs.3347 crore. The notable feature of RIDF in this State is diversity of projects implemented. It can be observed from Table 4 that core infrastructure projects like rural roads (44.63%), bridges (9.36%), irrigation (11.57%) and power (17.05%) formed the backbone of the RIDF financing . Under irrigation

sector, majority of the projects sanctioned are minor irrigation projects. For power sector , the state has been sanctioned system improvement projects involving Rs. 570.60 crore under various tranches of RIDF (VI, VII, VIII and IX). These projects aiming at reducing the transmission and distribution losses are expected to facilitate improve voltage profile and availability of additional power by way of reducing losses. These have been sanctioned in all the districts of the State.

The State has been sanctioned 5396 projects in the social sector involving loan amount of Rs.375.78 crore under RIDF-VII, RIDF-VIII, RIDF-IX and RIDF-X . These projects include construction of buildings for primary schools, Shishu Shiksha Kendras , Flood Rescue Centers. These projects aim at providing all weather housing facilities to these rural education /health centers.

Constraints

The major constraints in regard to financing are noted below.

- i) Most of the irrigation projects under the RIDF-I are beset with land acquisition problems.
- ii) Earlier, there was considerable delay in payment of interest by the implementing department and the Finance Department.
- iii) The RIDF is a time bound programme. Hence, timely completion of the selected projects is of paramount importance.
- iv) Many of the projects have experienced the problems of political interference and unwillingness of the local people.
- v) Owing to unprecedented flood in some of the districts, the progress of the sanctioned projects has suffered.

Summary and Conclusions:

An attempt has been made in this section to present the summary of the findings and the conclusions of the study. The study sought to examine whether there was any significant spurt in the rural infrastructure development after the two decades following the establishment of the NABARD and if any such is traced, to gauge how far this is attributable to the NABARD's working. The study also aimed at evaluating the NABARD's success in ensuring rural infrastructure development in the State, to identifying the pitfalls in the working of the NABARD and suggesting a framework of the probable new areas of its active involvement in bringing

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about the desired institutional changes and structural reforms in the State's infrastructure.

The NABARD plays an important role for the development of rural infrastructure in agriculture. Total amount refinance under the fund of RIDF I, RIDF II, RIDF III, RIDF IV and RIDF V has shown an increasing trend. A number of rural infrastructure projects, such as, minor irrigation, medium irrigation, rural roads, rural bridges and flood protection have been completed by the NABARD under the RIDF.

Shortcomings :

- (a) There is a lack of co-ordination amongst the various activities of the NABARD. The Bank's refinance operating cycle is not working effectively. The Regional Offices are not adequately committed to the planning schemes to be refinanced to meet the local needs.
- (b) The NABARD is not using the inspection findings to monitor the banks' performance except in a very general way. The only extensive use of inspection reports by the NABARD lies in assessing the client banks' eligibility for short-term credit limits.
- (c) There is a lack of effective co-ordination between short-term and medium-term credit wings, several medium-term borrowers of the client banks are not in a position to obtain production finance for deriving optimum benefit from their investment.
- (d) The NABARD does not normally refinance any rural electrification scheme unless they have the technical clearance from the Rural Electrification Corporation (REC). Till the year 2009 the NABARD has not sanctioned any amount for rural electrification scheme under the RIDF.
- (e) The NABARD takes much time in identifying the projects, leaving less time for their implementation.
- (f) The non-farm business and the agro-processing activities are likely to be more dynamic sectors in the rural areas in the coming years but relative share of refinance from the NABARD is poised for a steady decline.

Conclusions

From the findings of the present article it can be concluded that the NABARD has a dual role to play as an apex level institution and as a refinancing institution. It has inherited its apex role from the Reserve Bank of India. Various promotional efforts have been made by the NABARD for rural infrastructure development. The National Bank has been providing financial assistance

to the State Government directly for the development of rural infrastructure in rural areas. Various types of pitfalls were found in the working of the NABARD and the present study suggests a framework of the probable new areas of its active involvement in bringing about the desired institutional changes in the State's infrastructure.

It is hoped that this study reflecting the impact of the NABARD on rural infrastructure development will be useful, since empirical research on this particular area in West Bengal is indeed restricted, at least so far.

ANNEXURE :

Table 1, Table 2, Table 3, Table 4

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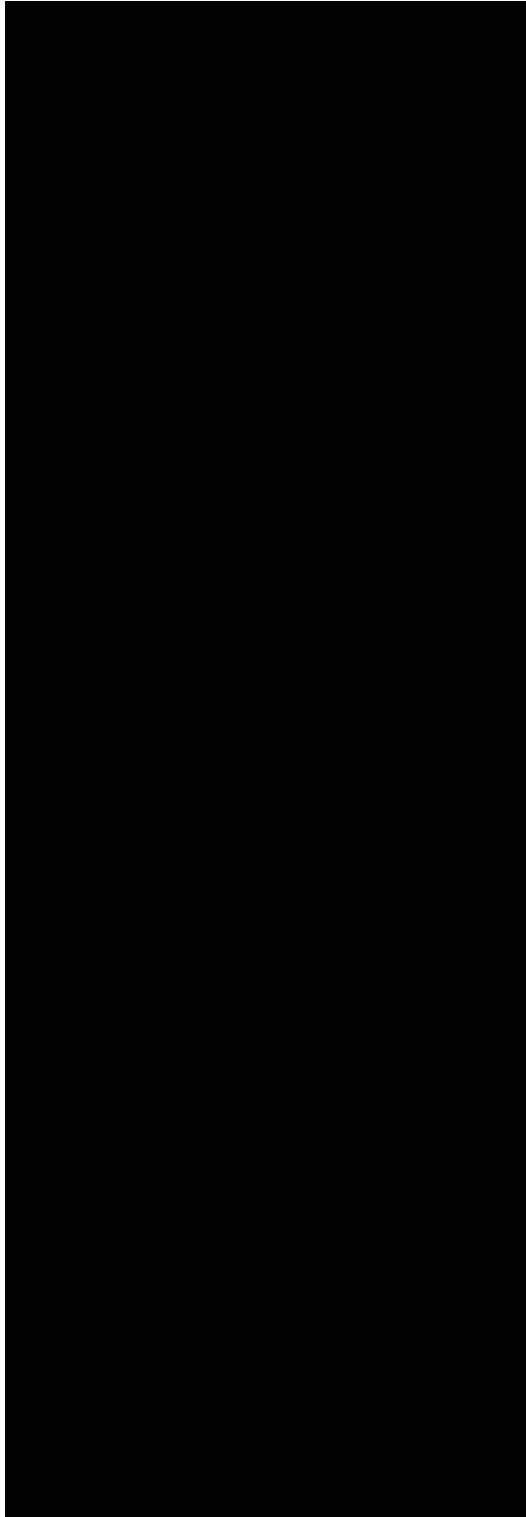
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TABLE- 1
Details of Disbursement: Tranche-wise and Activity-wise as On Dec.22, 2009 (in Lakh)



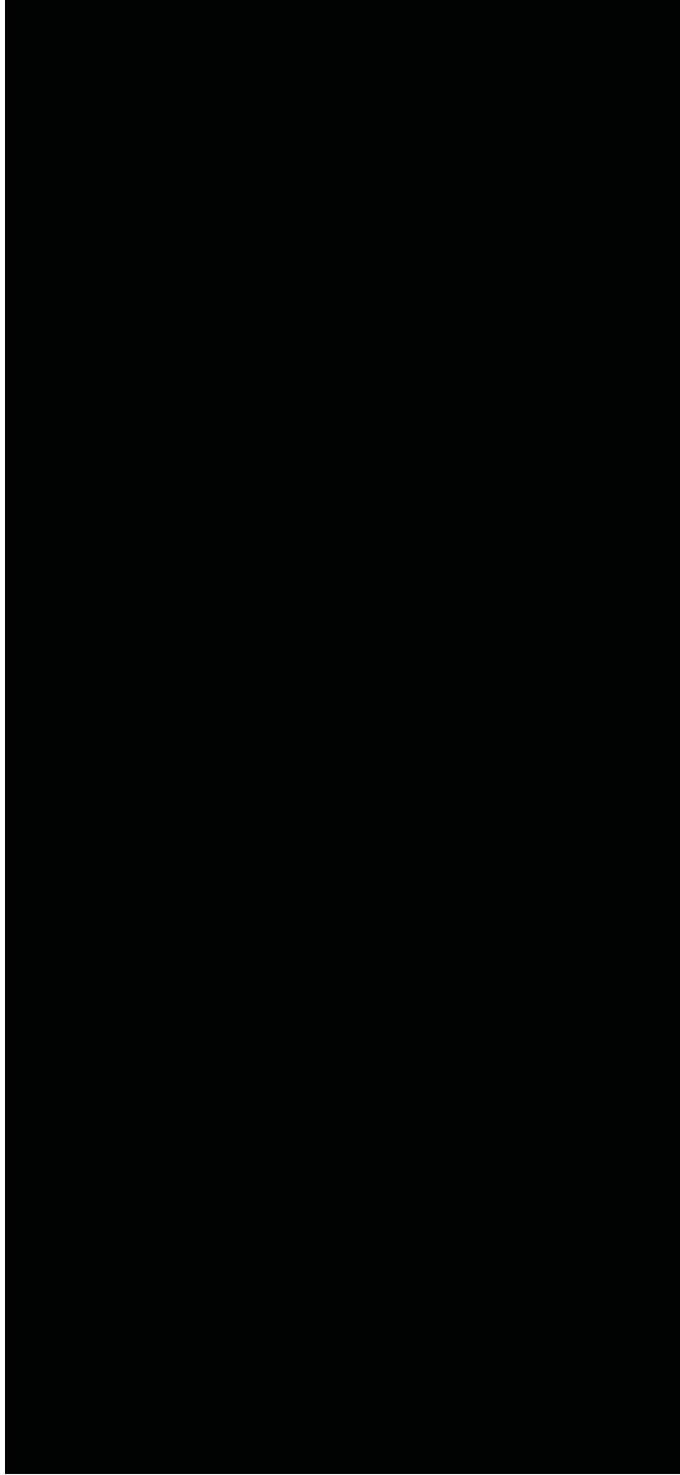
SOURCE: NABARD'S REGIONAL OFFICE, STATE FOCUS PAPER OF WEST BENGAL (2006-07), KOLKATA.

TABLE-2
Details of Disbursement: Tranche-wise and Activity-wise as On
Dec.22, 2009 (in Lakh)



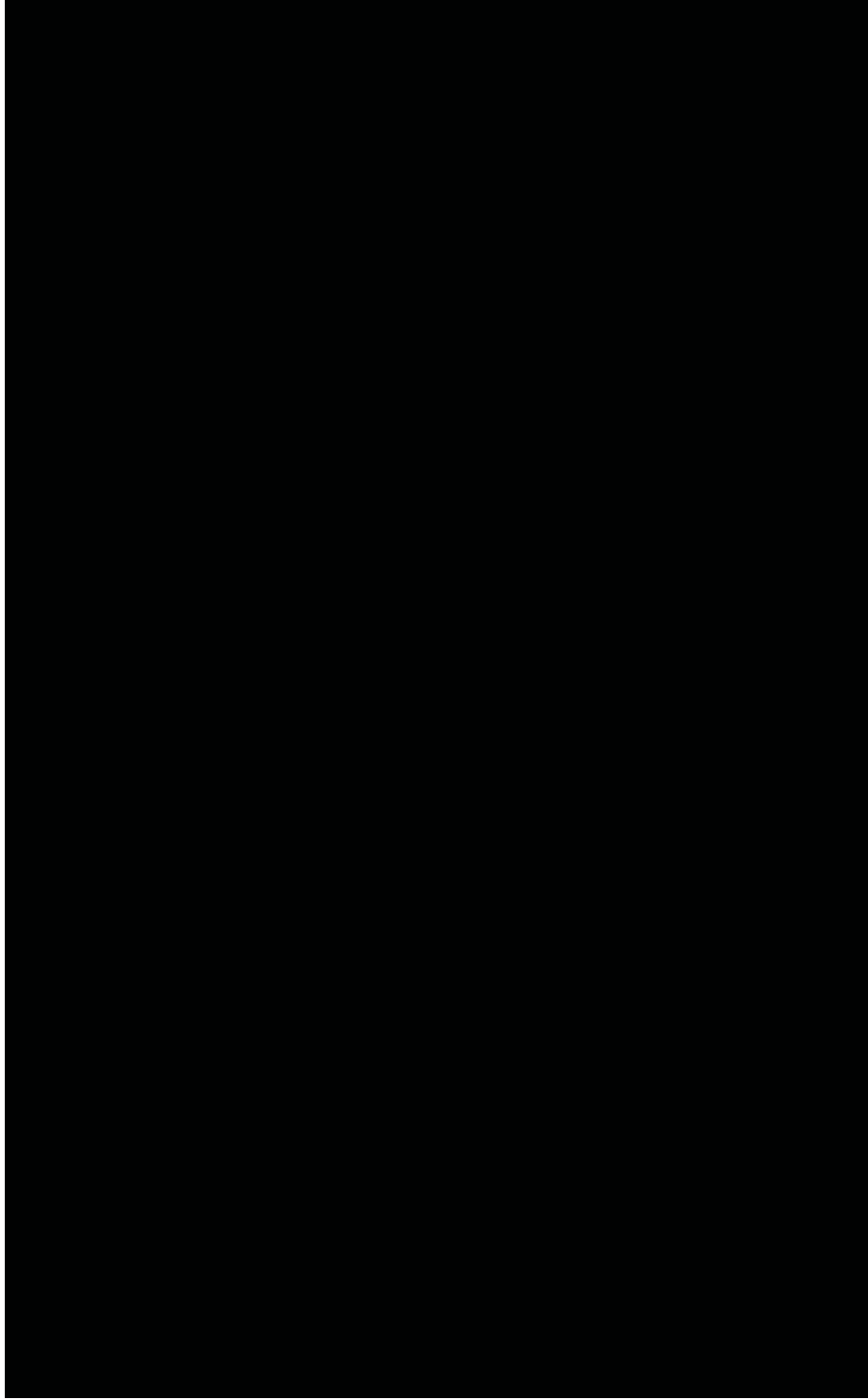
Source: NABARD's Regional Office, State focus paper of West Bengal (2008-09), Kolkata

TABLE-3
Details of Disbursement: Tranche-wise and Activity-wise as
On Dec.22, 2009 (in Lakh)



Source: NABARD's Regional Office, State focus paper of West Bengal (2008-09), Kolkata.

TABLE – 3
Details of Projects Completed under RIDF in West Bengal



Source: NABARD's Regional offices, State focus paper of West Bengal (2008-09), Kolkata.