Foreword

India has been experiencing considerably high economic growth in the recent years. However, one of the shortcomings of this spectacular growth is its non-inclusiveness as benefits of economic growth remain illusive to a large majority of rural populace. Given the crucial linkages of infrastructure with economic growth, poverty alleviation and human development, emphasis on rural infrastructure in this context assumes critical importance.

Recognising the role of the state for rural infrastructure development, the Hon'ble Finance Minister announced in the Union Budget Speech of 1995–96 a funding provision for the state to improve the status of rural infrastructure. As a result, the Rural Infrastructure Development Fund (RIDF) was created under NABARD with corpus from the commercial banks. This fund was initially developed to provide resources for the projects that remained unfinished due to want of resources, but later extended to new projects as well. RIDF-I was launched in 1995–96 with an initial corpus of Rs 2,000 crore through contributions from both public and private sector banks. Except for a brief period of break, this funding provision has been continuing till today. After more than a decade of its inception, it is useful to scrutinise the status of RIDF, its coverage and the extent to which it has helped the states in rural infrastructure development. This study has been taken up with this broader objective. While we examine these issues at the national level, the current monograph also takes up Karnataka as a particular case and analyses these aspects in some detail.

When RIDF-I was first introduced in 1995-96, its major emphasis was to finance irrigation projects. However, development of rural roads became a major activity under RIDF II (1996-97) onwards. In addition, RIDF can now be used for development of integrated market yards, cold-storage chains, godowns and other such activities. In recent years, RIDF has been used for developing social infrastructure like improvement of school buildings or anganwadi programmes as well. During 2001–02, a fixed amount has been kept separately for projects in the power sector in rural areas[1]. Also, loans have been sanctioned of late to the state governments under RIDF for projects to be implemented through local government, like panchayats. The state government, however, remains the responsible authority for repayment of such loans.

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[1] Annual Report, NABARD.

The implementation of the RIDF projects is monitored strictly as NABARD is involved. Thus the outcome of the projects is much more satisfactory than many other state-financed projects.

Given this background, it is of interest to examine how funds have been allocated by the states for different purposes and how is it linked to the current state of infrastructure facility in a region. In other words, are resources being channelised to the rural areas which have comparatively the more inadequate infrastructures? This is an important issue as most of the discussion of rural infrastructure is based on rural-urban disparity (NCAER Report 2006, pp.5[2]) and the equally vital issue of intra-rural disparity often gets sidelined. Undoubtedly, it is essential to look at divergence within the rural areas and see how inequalities can be reduced between rural regions as well, through provision of infrastructure. This study, therefore, makes a modest attempt to analyse the state-wise allocation patterns across Indian states as well as district-wise allocation pattern across different rural areas in the state of Karnataka.

Another concern that has been raised in the context of infrastructure projects which are state-financed is that infrastructures are often merely constructed without careful analysis of resulting welfare gain from such projects. Ensuring these benefits means involving local communities in planning, implementing, and maintaining infrastructure projects[3] . In recent years, with a view to involving the stakeholders, local bodies have been enabled to borrow from RIDF. In this study, we examine to what extent this has been successful.

Flow of Funds to Different States in India

Ideally, allocation of funds for any purpose should be need-based. The need for funds for rural infrastructure development in turn depends on the status of rural infrastructure and the economic and social situations of the rural poor.

RIDF is mainly used to establish two major items of rural infrastructures, viz., roads and irrigation facilities. One can arrive at deficiency indicators based on these two infrastructures by using measures like 'percentage of villages not connected by roads' or 'percentage of net or

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[2] India Rural Infrastructure Report, NCAER, 2006

[3] Policy issues for the ESCAPE region: Balanced development of urban and rural areas and regions within the countries of Asia and the Pacific, UNESCO, 2001, http://www.unescap.org/57/e/e1199e.pdf

gross sown area not covered by irrigation facilities'. In addition, one can consider certain proxy measures as general measure of deficiency and the need for infrastructure. In this context, rural poverty can be considered an indirect but relevant indicator of the need for infrastructure as strong positive correlation between rural poverty and deficiency of infrastructure is a well-established phenomenon.

When we look at the relation between the flow of funds and infrastructure availability, the following results are obtained in this analysis:

- States with higher rural poverty rates are minimal users of RIDF for rural infrastructure developments. In fact, if we look at the correlation between the total flow of RIDF funds and rural poverty rates, we observe a highly significant negative correlation (-0.4). In other words, the higher the rates of rural poverty (indicating greater need for infrastructure), the lower are the flow of funds. Poorer states utilise lesser funds.
- The poorer the road and irrigation infrastructure in a region, the lesser is the fund allocation for these purposes under RIDF.
- States with higher fiscal deficit per rupee of revenue earned also take more loan. This indicates that the more developed states are more proactive. In spite of having higher fiscal deficits, they are ready to incur more loans for the purposes of development. Less developed states, on the other hand, are passive in this respect. From this analysis it is difficult to infer the direction of the causal relationship.
- If we now examine the status of the projects, it has been observed that even after 10 years, some 234 projects have remained incomplete. About 6,000 projects taken up from RIDF I to V have remained incomplete till date. One may recall in this context that the main idea behind introduction of RIDF is to enable the state governments to complete the hitherto incomplete projects which remained so due to lack of funds. However, if projects taken up under RIDF I itself have remained incomplete, (may be due to a state's inability to borrow funds under the given terms and conditions), then the whole purpose of introduction of such a scheme becomes meaningless.
- Furthermore, it was decided in 1999 that RIDF can be given to local-level institutions like the Panchayati Raj Institutions (PRIs) or prominent self-help groups (SHG) of the locality. The respective state government remains the guarantor of the loan taken. One of

the main objectives of making funds available to the local-level institutions is to ensure efficient utilisation of funds. Since local governments themselves are stakeholders, one may expect funds to be employed according to the local needs. During the first year one observes as high as 17% of funds diverted to the local level institutions. However, over time this share shows considerable decline to 0.7% in 2004-05. Even in absolute terms, funds diverted to PRIs declined from about Rs 500 crore in 2001-02, to about Rs 50 crore in the next two years.

After observing these trends at the national level, the monograph next examine these issues in some detail for the state of Karnataka.

Utilisation of RIDF in Karnataka

First, it is interesting to note that though in comparison with other states the irrigation facility in Karnataka is rather poor, the State is pouring more resources into development and upgradation of roads. Secondly, a careful examination of the flow of funds and economic status of the districts of Karnataka reveals the following: Most of the low receivers of loans are also low-income districts barring some exceptions like Bangalore–U and Mysore which are mainly urbanised districts. Consequently, the correlation between total flow of funds (from RIDF I to IX) per hectare of rural area and per capita income of a district shows a positive relation implying that more funds flow towards richer districts and it is statistically significant. We also observe a mismatch between availability of road and irrigation infrastructure and flow of funds for these purposes to different districts. Though correlations values are not statistically significant, signs are in wrong directions. Furthermore, out of the top 14 receivers of loans for public health centres, 50% districts fall in the category of comparatively richer districts according to per capita income classification. These districts, one expects to have comparatively higher capabilities to afford private services; while the poorest of the poor regions need prioritised attention.

However, concentrating on the funding for schools, we observe that the comparatively poorer districts (in terms of per capita income) are getting more funds towards development of schools and this is unquestionably an encouraging trend. Interestingly, for the first time we observe a negative and statistically significant correlation between rural literacy rate and loans directed towards schools across districts.

Moving below district level to the taluka level, we examine the funds allocated by certain departments taluka-wise. We in particular consider water-shed department in Karnataka as the state is one of the driest state in India. Here too we observe that there is no significant relation between extent of problematic area in terms of availability of water resources and the flow of funds to that area.

Thus there is a need on the part of the states to make a careful analysis of inadequacy of infrastructure of a certain type in a region and allocation of funds so that intra-rural disparity can be reduced and one can make an optimal use of such a useful facility.

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