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RURAL ELECTRIFICATION CORPORATION (PROGRESS OF ITS WORKING)*

Following the recommendations of the All-India Rural Credit Review Committee (1969), the Rural Electrification Corporation was set up by the Government of India in July, 1969, with a view to assisting State Electricity Boards and rural electric co-operatives, by means of appropriate loans, to take up such rural electrification schemes as help develop agriculture and small and village industries. The main objects of the Corporation are (*i*) to finance rural electrification schemes in the country, (*ii*) to subscribe to special rural electrification bonds that may be issued by the State Electricity Boards (SEBs.) on conditions to be stipulated from time to time, (*iii*) to promote and finance rural electric co-operatives, and (*iv*) to administer the moneys received from time to time from the Government of India and other sources as grants or otherwise for the purpose of financing rural electrification in the country in general. The authorised capital of the Corporation at the end of the year 1971-72 was Rs. 25 crores divided into 2,50,000 equity shares of Rs. 1,000 each. The whole of the paid up capital amounting to Rs. 20 crores at the end of August, 1972 is owned by the Central Government. The Corporation has a twelve-member Board of Directors, consisting of an honorary part-time Chairman, a Managing Director and a Technical Director, both whole time and nine part time directors, all appointed by the Central Government. Of the part time directors, four are non-officials.

With regard to the conduct of business of the Corporation, the Government of India issued certain directives which enjoined on the Corporation the responsibility to establish sound policies and procedures for the consideration, approval and implementation of rural electrification schemes coming up for assistance from the Corporation. These directives are relatable to three important aspects of the Corporation's activities other than its purely financial role. These aspects may be broadly described as promotional, consisting as they do of measures (1) to help SEBs to improve the quality of their projects at different stages of preparation and implementation; (2) to encourage the co-operative type of organization for distribution of electricity in rural areas; and (3) to encourage local efforts to raise resources, *e.g.*, in the form of rural bonds or debentures, by making appropriate matching contributions to the SEBs. In formulating such policies and procedures, the Corporation is required to develop and apply criteria for, and establish priorities regarding the choice of schemes on the basis of consideration of economic viability of the schemes. Such criteria and priorities are to be based on suitable economic and financial standards. In choosing the schemes for which loans are provided by the Corporation to the SEBs, a project approach is to be generally adopted so that extension of electricity along with other investments and inputs results in increased agricultural production and reasonable returns on agricultural investments. Economic viability of the scheme has been broadly

* *Source :* Annual Reports and Address by B. Venkatappiah, Chairman, Rural Electrification Corporation Limited at the Third Annual General Meeting on September 26, 1972.

defined to mean the prospect of sufficient revenue from sales of electricity to rural users to cover operating costs and the appropriate return on investments. In economically backward areas with future agricultural potential, the norms relating to returns on investments are to be suitably liberalised for a short initial period not exceeding five years. The SEBs are also to be helped by the Corporation in identifying likely areas for projects and in preparing project proposals.

Financial Policy

The financial policy of the Corporation is governed by two aims which seek to achieve (*i*) economic development of the project area, and (*ii*) financial viability of the project investment. The Corporation has evolved in consultation with State Governments and SEBs certain criteria for the classification of areas, norms of viability and terms and conditions of loans to be applied from the first year of its operation. Two broad categories of areas, namely, backward areas and other areas are distinguished. The economic development is oriented, firstly, to agriculture—ground water being an important component—and secondly, to rural industry. With these as core, the electrification of house, shop and street has also been part of the design and content of each project. The second objective of financial viability has specific reference to the project outlays of SEBs. In actual application it has also taken into account the varying degrees of development of different areas, and consequently, the varying periods over which investment could be expected to be remunerative. Preferential terms and conditions are stipulated for backward areas compared with those for other areas. Following criteria are adopted by the Corporation for examining the economic viability of rural electrification schemes.

Code	Category and classification of the area	Minimum return to be achieved
OA	Ordinary Advanced	2% at the end of the 5th year 3% at the end of the 10th year
OB	Ordinary Backward	½% at the end of the 5th year 2% at the end of the 10th year 3½% at the end of the 15th year
OC	Ordinary Co-operatives	No fixed rates of return are prescribed. While examining the economic viability of individual projects the rates prescribed for ordinary backward area are kept in view.
ST	Special Transmission lines	½% at the end of the 5th year *Or* The load potential should be such that within 5 years of the completion of the H.T. lines and sub-stations,

(*Contd.*)

		rural electrification projects for extending electricity to the rural area could be developed in such a manner that those projects would (*i*) involve an investment not less than twice the investment made under the special scheme of H.T. lines and sub-stations ; (*ii*) would be viable in the light of criteria applicable to such projects.
SU	Specially underdeveloped hill, desert, tribal and other areas	½% at the end of the 10th year 2% at the end of the 15th year 3½% at the end of the 20th year
SS	Special-System improvement ..	3½% at the end of the 5th year

The total period of the loan has been fixed at 25 years for schemes relating to backward areas and 20 years for those relating to other areas. In both cases, moratorium on repayment of principal for a period of five years is allowed by the Corporation. The rate of interest for schemes relating to backward areas is 5¼ per cent for the first ten years, 5¾ per cent for the next five years, 7¼ per cent for the next five years and 8¼ per cent for the next five years. For schemes relating to other areas, the rate of interest varies from 6¼ per cent to 8¼ per cent. In both cases, a rebate of ¼ per cent is allowed for prompt repayment at all stages.

Having regard to the Corporation's special responsibility to the five pilot rural electric co-operatives, and its promotional role in this sphere, payment of interest on the project loans by the five co-operatives has been waived for the first five years of the loan, provided the co-operatives credit an amount equal to the interest payable to the Corporation to a special fund to be created by them.

Another development in regard to financing policy is the enlargement of the scope of the special category loans for (*a*) transmission system, and (*b*) under-developed hill regions. In regard to those States which are below the all-India average level of village electrification, one of the main obstacles to more rapid rural electrification is the relative sparseness of high tension transmission lines with the connected sub-stations. The Corporation is concerned with transmission only in so far as it is a necessary preliminary to the building up of a rural load. In suitable instances confined to the category of States which are at or below the all-India level of village electrification, special loans for transmission (ST) are given on certain conditions. One of these conditions is that the loans from the Corporation is limited to 80 per cent of the project cost not exceeding Rs. 100 lakhs and the balance being borne by the State Electricity Board from out of its own resources. The period of repayment of such loans is 12 years, with a moratorium in the first two years in the repayment of principal and the rate of interest charged is 7 per cent. The 'ST' loan has been extended to all backward areas in those

States which are above the all-India level of village electrification, but the period of repayment of the loan is limited to 10 years with a two-year moratorium as in other cases. The scope of the special loans for under-developed areas which hitherto has been confined to certain backward hill areas, has been enlarged to include desert and tribal areas as well.

Progress of Working

Data relating to the loan operations of the Corporation and the physical achievements under the rural electrification scheme at the end of March, 1972 are given in Tables I and II. It may be noted that the Corporation sanctioned 211 loans amounting to Rs. 133.99 crores at the end of March, 1972 for project-based schemes of rural electrification of which five were for rural electric co-operatives. The remaining 206 loans amounting to Rs. 121.13 crores pertained to projects prepared by the State Electricity Boards and approved by the Corporation. The 211 rural electrification schemes approved for loan assistance are expected to energise 3,05,131 agricultural pump-sets, and 45,499 low tension industries including agro-industries besides providing 8,77,935 domestic and commercial connections and 1,44,542 street light points.

TABLE I—FINANCIAL OPERATIONS OF RURAL ELECTRIFICATION CORPORATION AT THE END OF MARCH, 1972

(*crore Rs.*)

Category of schemes	Number of schemes sanctioned at the end of		Loan sanctioned at the end of		Loan disbursed at the end of		Outstandings at the end of	
	1970-71	1971-72	1970-71	1971-72	1970-71	1971-72	1970-71	1971-72
1. Ordinary advanced areas (OA) ..	57	113	32·54	64·37	13·52	32·81		
2. Ordinary backward areas (OB) ..	43	87	23·25	53·16	7·96	22·47	21·48	55·83
3. Special under-developed areas (SU) ..	—	4	—	0·81	—	0·26		
4. Special transmission lines (ST) ..	—	2	—	2·24	—	0·29		
5. Harijan basti loans ..	—	10	—	0·55	—	0·44	—	0·44
6. Rural Electric Co-operatives (OC) ..	5	5	12·86	12·86	4·61	5·93	4·61	5·93
Total	105	221	68·65	133·99	26·09	62·20	26·09	62·20

TABLE II—TARGETS ENVISAGED UNDER THE RURAL ELECTRIFICATION SCHEMES SANCTIONED UPTO THE END OF MARCH, 1972

Category of schemes	Total schemes sanctioned	Number of villages	Number of pump-sets to be energised	Number of low tension/ agro-industries	Number of domestic/ commercial connections	Number of street lights
State Electricity Boards						
(*i*) Kural electrification schemes	206	19,040	2,77,526	43,946	8,31,120	1,32,202
(*ii*) Harijan basti schemes	10	1.142	—	—	—	9,167
Rural Electric Co-operatives ..	5	729	27,605	1,553	46,815	12,340
Total	221	20,911	3,05,131	45,499	8,77,935	1,53,709

Since the commencement of the financial year 1972-73, the Corporation has sanctioned 68 rural electrification schemes, and 4 special Harijan basti loans sponsored by the State Electricity Boards involving a total loan assistance of Rs. 32.76 crores at the end of August, 1972, bringing the total number of schemes sanctioned to 279 (including the five pilot rural electric co-operatives), special Harijan basti loans to 14 and total loan assistance to Rs. 166.70 crores. These schemes are expected, on completion, to electrify 26,274 villages and energise 3,58,265 pump-sets, besides servicing 55,672 low tension industrial including agro-industrial connections and 11,20,361 domestic and commercial connections. Out of the 279 schemes, 107 are for backward areas, 8 for specially under-developed hill areas and 7 are special schemes for transmission lines. The State Electricity Boards and the rural electric co-operatives have upto August, 1972 availed themselves of Rs. 67.11 crores.

One important responsibility accepted by the Corporation is the promotion and financing of the co-operative form of distribution of electricity in the rural areas. In furtherance of this objective, the Corporation has financed five pilot rural electrict co-operatives, one each in the States of Andhra Pradesh (Sircilla), Gujarat (Kodinar), Maharashtra (Rahuri), Mysore, and Uttar Pradesh (Lucknow). The co-operatives have been established as a pilot experiment with a view, *inter alia*, to (*a*) furnishing electricity to the rural people at reasonable cost in order to increase agricultural production, stimulate small agro-industry and improve the standard of living of the rural population; (*b*) providing the basis for a rapid and standardised pattern of construction and operation for rural electric system. The Corporation has sanctioned a loan assistance of Rs. 12.81 crores for the projects submitted by

these five co-operatives. These projects envisage the extension of electricity to 729 villages besides the energisation of 27,605 pump-sets and the provision of service connections to 1,553 rural industries.

The loan policy of the Corporation to less advanced areas is designed to correct the disparity in development between one area and another in regard to the degree of rural electrification achieved. For working purposes, the Corporation has grouped the States with State Electricity Boards on the basis of the average level of all-India village electrification at 21.7 per cent into those (1) Above the Average (AA), and (2) Average and Below (AB). According to this classification, 9 States—Andhra Pradesh, Gujarat, Haryana, Himachal Pradesh, Kerala, Mysore, Maharashtra, Punjab and Tamil Nadu—are grouped under AA category and 8 States—Assam, Bihar, Madhya Pradesh, Meghalaya, Orissa, Rajasthan, Uttar Pradesh and West Bengal—under AB category. Of the 274 projects sanctioned for State Electricity Boards, at the end of August, 1972, 143 are for the AB category of States and 131 for the AA category. In terms of amount sanctioned, AB States accounted for Rs. 84 crores and AA States for Rs. 69 crores out of a total of Rs. 153 crores. Out of the 122 projects pertaining to backward and specially under-developed areas, as many as 86 are in the AB States and out of the remaining 36 projects, as many as 20 are in the relatively drought-prone regions of Andhra Pradesh and Maharashtra. Interestingly, out of six States for which the schemes sanctioned by the Corporation numbered 20 or more each, as many as five are AB States: Uttar Pradesh (34), Madhya Pradesh (24), West Bengal (23), Bihar (21), and Rajasthan (20). Only one State—Maharashtra (20) is in the AA category. Four of the hill area schemes sanctioned are located in Uttar Pradesh, 3 in Himachal Pradesh, and one in Meghalaya. The special transmission schemes sanctioned are 2 each in Orissa, Uttar Pradesh and West Bengal and one in Rajasthan.

The objectives and policies of the Corporation are no less concerned with the weaker classes of the rural population than with areas which are backward or States which are less advanced in village electrification. A deliberate policy has been followed by the Corporation to bring about maximum co-ordination with those rural programmes which are designed for the benefit of the weak and under-privileged sections of the community. REC projects have been established in more than half the districts in which the Small Farmers' Development programmes are located and in more than a third of the districts in which agencies have been set up for the benefit of the Marginal Farmers and Agricultural Labourers.

Among the weaker classes, special consideration is given to the Harijans. Under a special scheme started in February, 1972, which is being implemented by the Corporation on behalf of the Government of India, assistance is provided to the State Electricity Boards for extension of electricity to Harijan bastis which have remained without electricity while the main village is itself

electrified. For taking electricity to such bastis, the State Electricity Boards are provided loans on concessional terms. As at the end of August, 1972, the Corporation has sanctioned 14 special loans amounting to about Rs. 70 lakhs covering more than 1,400 Harijan bastis.

Another noteworthy development activity of the Corporation is the promotion of schemes for advanced areas and financial participation by rural consumers through floatation of rural electrification bonds. Where a State which is above the all-India level of village electrification sponsors a second or a subsequent project for a district which is itself advanced, the direct assistance of the Corporation is limited to 60 per cent of the project cost. In the event, however, of the State Electricity Board choosing to raise the balance of 40 per cent by floatation of rural electrification bonds, the Corporation subscribes to the bonds on a matching basis and also accepts a lower rate of interest for its subscription. In the case of 7 out of the 56 schemes sanctioned in the advanced areas during 1971-72, the direct loan assistance of the Corporation is limited to 60 per cent and the rate of interest charged on its subscriptions to rural bonds is 4½ per cent. The Corporation has thus laid emphasis on rural savings being made increasingly available for rural electrification.

An innovation recently introduced by the Corporation relates to "mini-project" loan which supplants none of the existing categories of loans but is available in addition to all of them. This loan is project-based and growth-oriented but is admissible only in such development blocks of any particular State classified as backward or specially under-developed. The mini-project loan is ordinarily limited to Rs. 5 lakhs and in no case exceeds Rs. 10 lakhs. The mini-project will cover 5 or 10 villages which together form a strip or a cluster. The choice of location of the mini-project within the block is governed by the consideration that one of the villages in the cluster will develop itself as a growth centre or health centre or a focal point of economic development for the cluster of villages as a whole. The mini-project loan is composite in character, one part of the loan pertaining to the area programme and the other, where necessary, to transmission from elsewhere to the project area. No block is eligible for more than one mini-project. The proportion of the two parts of the loan naturally differs for different projects. The area-based part of the loan is subject to the same criteria and is eligible for the same terms as are associated with the existing categories of loans for backward or specially under-developed areas. The repayment terms for the transmission part of the loan is the same as those for 'ST' loans which now obtain for different States according as they are above or below the average level of electrification. In view of the very large number of under-developed and unelectrified blocks spread over almost all the States, the new facility offered by the Corporation will help accelerate the rapid electrification of economically or socially strategic segments of the backward blocks of the country.

Another set of measures initiated by the Corporation is directed towards system improvement and conservation of power. With a view to reducing line losses and conserve available power and helping the State Electricity Boards to step up the technical efficiency of the transmission system and improving its economic outputs in terms of electrical energy and production in rural areas, the Corporation has introduced a special loan for system improvement. The special system improvement loan is a relatively short duration loan repayable in 8 years with a moratorium for repayment of principal for the first two years and carries an interest of 7 per cent per annum. The loan does not exceed Rs. 50 lakhs and is further limited to 20 per cent of the market value of existing assets in the area concerned. In the case of States which are above the all-India level of village electrification, the quantum of loan assistance from the Corporation for any individual scheme, except in regard to schemes meant either exclusively or substantially for the pilot project co-operative areas, would be limited to 16 per cent of the existing market value of the assets or in other words, 80 per cent of the project cost. To be eligible for this special loan, the project should be capable of yielding a minimum net return of $3\frac{1}{2}$ per cent per annum at the end he fifth year after meeting interest charges and depreciation and other charges. The return is estimated on the basis of savings or benefits arising from system improvement.

Thus the Corporation has increasingly focussed its attention to the problems of the weaker classes, backward and under-developed areas and those States which are below the average level of all-India village electrification. The projects with which the Corporation has concerned itself have never been mere electrification projects as such, but area development projects of a versatile character in which electricity is treated both as input and infra-structure. Hopefully, the Corporation has been endeavouring to equip both itself and the State Electricity Boards adequately for the purpose of proper formulation, implementation and co-ordination of development-oriented area projects of rural electrification at project, district and State levels.