Case Study: Differential Rate of Interest (DRI)
Case Study number: 011
Initiated in: 2013
Key terms: Solar, end user financing, financial inclusion, banks, IOB, Canara, SBM.

End user financing scheme, differential rate of interest

In 2013, residents of Belgaum district bought solar home lighting systems with the aid of a Government of India scheme called Differential Rate of Interest (DRI) that offers loans at 4 percent rate of interest for specified low income groups. This case story captures how pro poor schemes can be tapped to encourage lending for energy access solutions that have direct impacts on the quality of life and it also demonstrates how loans with simple procedures can catalyze end user financing.

**Identification**

After a lighting awareness camp in the area there was an interest to finance systems so this was jointly pursued by SELCO and Canara Bank branch manager.

**Problem Statement**

There is irregular supply of electricity from the grid. Some houses are not connected to the grid at all. It is a lengthier process to take solar loans as they require a lot of paperwork especially to avail the subsidy offered by Ministry of New and Renewable Energy. Furthermore, the rate of interest is higher than the 4 percent offered by the Differential Rate of Interest scheme.

In Belgaum district, two communities were financed by Canara bank for 15 and 10 units respectively. In one case the houses have access to electricity but its highly irregular while in the other the location of community deep within interior forests leaves them without any access to regular grid. Primary occupation ranges from daily wage laborers, to small farmers, tenant farmers cultivating land on lease.

In absence of regular electricity, the villagers are forced to depend on alternative sources of energy such as kerosene or battery charged lights. Hence solar energy presents itself as a viable source as it has the capacity to provide 4 hours of regular light. In May 2013, while helping some of villagers buy solar home lighting system SELCO discovered that there was a low interest government scheme available that could be explored to help villagers purchase energy solutions.

DRI scheme was announced by the Government of India in 1972 to provide loans at 4 percent interest rate to poor families for productive activities. Families whose collective income is below Rs 24,000 in urban areas and Rs 18,000 in rural areas, can avail a loan up to Rs 15,000. There is no margin money requirement but it has to be implemented through the Scheduled Commercial banks. By comparison, the scheme under Jawaharlal Nehru National Solar Mission (JNNSM)** generally availed by the customers gives a subsidy till 40 percent of the benchmark cost. There is a compulsory requirement of 20 percent margin money and the interest rate is the prevailing market rate, generally 12.5 percent [contd. next page].

---

**JNNSM was launched in 2010 as one of the initiatives of the National Action Plan on Climate Change to balance India’s energy security with ecologically sustainable growth. Under this, the target of deploying 20,000 MW of grid connected solar power by 2022 was set.**
The manager of Canara Bank agreed that in comparison the DRI scheme speeden disbursement for needy segments as there was not subsidy release component. Hence around 25 people were able to avail a loan under the scheme. Due to the financial inclusive terms of the scheme that included less paperwork, people accessed the loan with little difficulty.

The success of using this scheme in this district prompted SELCO to inform eligible users and bank managers to utilize the scheme were possible. As a result over 65 loans have been disbursed under DRI for solar loans by two other banks - Indian Overseas Bank and State Bank of Mysore.

**Key aspects**

- **Financial inclusive terms**: To get this scheme, less paperwork was required. They only had to show their passbooks. The loan was approved within a month.

- **A champion**: Customers who for the first time have to deal with a bank can be apprehensive and thus the presence of champion bankers helps take the initiative to understand and utilize the most appropriate scheme.

- **Targeted group**: The beneficiaries, whose income is below Rs. 24,000 in urban areas and Rs. 18,000 in rural areas, can avail a loan up to Rs. 15,000. The scheme encourages financial inclusion of lower income group by bringing them into the banking fold. Further the scheme has also benefited Scheduled Caste/Scheduled Tribe groups that can avail the facility irrespective of the levels of household income.

- **Hassle free**: The DRI scheme is a hassle free scheme which requires the hypothecation of assets created out of the loan only and with less paperwork. Moreover there is no margin money or collateral requirement for the scheme.

- **Cost factor**: DRI is a good scheme to take for a two LED home lighting system however, further analysis has revealed that there is not too much of a cost saving for a smaller or bigger light system. Nevertheless, certain terms such as no paperwork were important to encourage people to come forward and avail a loan.

**Risks and mitigations**

- The specifics of the scheme are vague on what constitutes as “productive activity.” Hence it’s up to the branch manager’s discretion to approve solar loans.

- Earlier there used to be a mandate that 1 percent of the loans disbursed by the local bank branch should be through DRI. This has now been done away with, leaving the managers with even less incentive to finance. Bringing back this sort of target maybe important to maintain motivation to use this loan.

- Repayment based on cash flows-The beneficiaries have complained that the monthly mode of payment does not suit them. For instance being farmers, they would prefer paying on a bi-annual basis. Thus flexibility to account for varied cash flows can help in quicker repayment.

- The presence of the more popularized JNNSM scheme can deter bankers from tapping into other loans although there is no mandate to only extend loans through the former. Continued interaction with bank presenting information restating the same helps in persuasion.
Customer standing on top of his roof with panel in the background, Chikkodi

Customer showing his light purchased through DRI, Chikkodi

Inside Canara Bank through which the DRI was disbursed, Chikkodi
Our funding partners