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FORMULATION OF DISTRICT CREDIT PLANS BY COMMERCIAL BANKS : SOME OBSERVATIONS

by

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FORMULATION OF DISTRICT CREDIT PLANS BY COMMERCIAL BANKS: SOME OBSERVATIONS

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The lead bank scheme was introduced by the Reserve Bank of India in December 1969. Under the scheme, various districts in the country were allocated among all public sector banks and two private sector banks. Thus a lead bank was designated for each district. The allocations were made on the basis of criteria like resource base of the bank, geographical contiguity, and the desirability of having more than one lead bank in each state as also each bank having lead responsibility in more than one state.

The lead bank was supposed to identify through surveys areas requiring branch expansion to meet gaps; it was expected to seek the cooperation of other banks operating in the district for opening branches as well as for meeting credit needs. In the first phase, the lead banks conducted impressionistic surveys of their districts with a view to identifying centres for opening branches. As a result, rapid expansion in bank branches in relatively unbanked areas has taken place. In the second phase of the scheme, the lead banks have gone ahead with the preparation

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[The author is indebted to his colleague Prof. C. Rangarajan for the benefit of discussion on the content of this paper]

of district credit plans for their districts which will form the basis of action plans of the flow of institutional credit for meeting credit needs of the district.

This paper aims at an analysis of the process of preparation and contents of district credit plans, and to suggest ways to strengthen these plans so that they provide a meaningful base for implementing credit schemes.

Preparation of District Credit Plans

The district credit plan is a development plan which can be taken up for financing by the financing institutions operating in the district. D'Mello has however, pointed out two major distinctions between a district credit plan and a district development plan.

"An important distinction between a district development plan and a district credit is that whereas in the district development plan, location of infra-structure and other facilities is decided on grounds such as population threshold, centro-place theory, growth centre concepts, felt-needs of the people etc; in the credit plan, need for these facilities to implement investment and production programmes determines the location. Another differences between the two types of plans is that whereas the district development plan should go by the social cost and benefit analysis, the credit plan should necessarily go by the private cost and benefit analysis and, what is more, on the basis of cash inflows and outflows reflecting the private costs and benefits."*

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*L.D'Mello, "Nature and Methodology of a District Credit Credit Plan", Prajnan, Vol. IV, No. 17 January-March 1975, pp. 77.

Thus; a district credit plan is primarily a development plan consisting of only technically feasible and economically viable schemes which can be taken up for financing by the financial institutions operating in the district. Since the planning process is still not fully geared at the district level, the lead banks have to assess the resources available and potential for growth in their districts and prepare a credit plan for the district. The resource endowment varies from district to district and these can be exploited for development only if additions are made to infrastructure facilities which is outside the control of lending institutions. Thus the credit plan has to include technically feasible and economically viable schemes within the existing or marginally strengthened framework of infrastructure facilities. At best, infrastructure gaps can be identified in the process of preparation of a credit plan and this would enable the government to allocate funds for such purposes. In this sense the development expenditure from budgetary allocation for expansion of infrastructure facilities determines the broad contours of economic development possible in a district.

A credit plan usually contains some of the following information and analysis:

1. Based on the data available from the government sources and other published materials, the availability of natural resources, cropping paterns and existing industrial development are analysed. The agro-climatic soil conditions, level of input use, and overall development of agriculture are discussed.

2. The available data are also used to analyse the past development and future development prospects of various sectors in the district.

3. The development activities undertaken by various other agencies are also briefly discussed.

4. Credit requirements are estimated and projected by using highly simplified methods. The credit requirements for agricultural operations, for example, are estimated by examining the existing cropping pattern and multiplying the acreage under each crop by an estimated credit requirement per hectare. Similarly, the credit requirements for dairy development are worked out as follows. First, the credit plan decides the number of farmers who will benefit from this loan distribution and how many cows or buffaloes they will buy. Then, from the average price of animals, subsidy, if any, is deducted and loan component obtained. This amount is in turn multiplied by the number of animals which the farmers are supposed to buy.

5. Credit requirements for each of the sub-sectors (primary, secondary, and tertiary) are estimated in exactly the same fashion and consolidated statements of credit requirements are prepared for each of the sectors.

6. Based on these estimates of credit requirements on "action plan" is designed which, amoung other things, projects the deposit mobilisation in the district (usually by trend method) and attempts a comparison of credit requirements and deposit mobilisation. The action plan describes the criteria on which shares of various commercial banks in meeting the total credit gap have been decided. At the end of the report, some credit schemes are discussed briefly and the economics (mainly proforma of income statements) of some of the major schemes that are to be taken up for financing is given. A critical review of six selected district credit plans is presented in Appendix 1.

Some Observations

While the broad approach to the preparation of district credit plans is more or less as described above, there is a wide variation in the quality of plans prepared by different banks. While all district credit plans claim to include technically feasible and economically viable schemes, only in some of them have schemes been included by taking cognizance of factors which one should consider. The Expert Gropp on agricultural credit schemes of commercial banks (Desai Committee) appointed by the Reserve Bank has recently summed up the deficiencies of various district credit plans as follows:

"In many District Credit Plans, as they are prepared at present, there is hardly any discussion about the nature and source of data used, and various assumptions made in working out the economics of credit schemes. Similarly there is very little discussion on the nature of supportive facilities required to make the estimated net incremental incomes come true in the credit schemes. For a District Credit Plan to be a meaningful starting point in drawing up of sound credit schemes by the commercial banks operating in the district, this lacuna should be removed. In the absence of this, there is a real danger of the economics of credit schemes given in the District Credit Plans being mechanically followed in good faith by the commercial banks."*

One of the weakest points in many district credit plans is the link between production enhancement efforts and marketing output. The Desai Committee has made some important suggestions for meeting the quality of these plans:

"1. Each credit scheme should spell out the assumptions made in working out the economic viability and repayment schedules of loans. These assumptions relate to such things as extra production, changes in the cropping pattern, increase in the intensity of cultivation, gestation period allowed for the asset to generate the comtemplated increase in net income,

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* Report of Export Group on Agricultural Credit Schemes of Commercial Banks, Reserve Bank of India, April 1978, p. 51 (Mimeo)

additional cost, prices of output, etc. The rationale behind the assumptions should also be discussed. This requirement will make the credit schemes realistic. It will also make critical appraisal of schemes possible at the sanctioning stage, and bring about meaningful supervision of credit schemes at the implementation stage.

2. Each credit scheme should point out the functional linkages between activity financed by the scheme and infrastructural support and other complementary activities which have a bearing on the viability of the scheme. This would improve quality of the scheme, facilities its critical appraisal at the sanctioning stage, and help implementing staff in the supervision of the credit scheme. It would lead to formulation of functionally integrated credit schemes for more than one purpose as opposed to single-purpose credit schemes which dominate at present."**

The Desai Committee has also emphasised intensive training of branch managers and agricultural technical field officers in formulating and implementing agricultural credit schemes. In formulating a specific credit scheme a major constraint has been inadequate and unreliable data. The Desai Committee has emphasised that the task of compiling district-wise data of loan operation of credit nstitutions and making them available to agencies involved in scheme formulation should be entrusted to the regional office of RBI. State governments are expected to issue appropriate instructions to district statistical officers, ground water departments, and other relevant department to provide data required by banks for formulating credit schemes.

Since most of the district plans are now ready and suffer from the above mentioned weakness, it is necessary to do further work along the lines suggested by the Desai Committee before action plans became meaningful. Otherwise, it will be difficult to implement the district credit plan in the present form.

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† Report of Export Group on Agricultural Credit Schemes of Commercial Banks, op. cit., pp. 54-56

Appendix 1: Overview of the Analysis Conducted in Six Selected Credit Plans

Analytical Content \ Credit Plan and the Lead Bank	Bijapur District Syndicate Bank	Anantnag District State Bank of India	Vadodara District Bank of Baroda	Mathura District Syndicate Bank	Pudukottai District Indian Overseas Bank	Varanasi District Union Bank of Indi
	1	2	3	4	5	6
1. Natural Resource Inventory	Analysis based on secondary data of land utilisation cropping pattern, irrigation, rainfall and climate, soil type etc.; very general economic profile of the district; a brief review of the development of various sectors.	Indepth studies of economic, soil climatic and agricultural conditions of three representative blocks; a fairly good resources inventory; separate consideration to an industrial block	District profile based on secondary data and the Lead Bank Report is given; discussion of a very general nature; soil and agro-climatic conditions, industrial set-up, and infrastructure	Same as the plan prepared by Syndicate Bank for Bijapur District	Four indepth studies conducted at block level to analyse socio-economic conditions, small surveys of the remaining blocks were also done; analysis of physiographic conditions, infrastructure, development potential etc. on the basis of these studies	Indepth studies of 22 blocks were conducted to acquire the base-line data on physiographic and natural resource position; the most satisfactory approach of all the six plans analysed here
2. Inventory of manpower with different skills	A very brief mention of the classification of workers in different categories on the basis of the 1971 census	Nil	Nil, except a brief mention of education and training facilities	Classification of workers industry-wise but not skill-wise; no indepth study or survey	Nil	Information, though collected, has not been analysed fully

	1	2	3	4	5	6
3. Analysis of the degree of development of various sectors to date and identification of key sectors	Almost no analysis. In the economic profile of the district, there is a very brief discussion of the role of each sector in the development of the district but nothing said about the sectors which have high growth potential	Indepth studies in three blocks have been used to analyse the general state of development of various sectors; key sectors identified	Fairly good analysis of the present state of development in various sectors; emphasis on industries as is obvious; key sectors not identified; some industries have been suggested having development potential but without a strong basis	Same as the Bijapur plan	Considers the development scheme undertaken by other agencies; choice of bankable projects on the basis of depth studies and informal discussions; No attempt made to identify key sectors; piecemeal approach	Developmental needs identified at the village level through indepth studies and consultations with panchayats; growth centres identified; farmers consulted frequently for technical information and agricultural practices to prepare bankable schemes
4. Estimation of credit requirements by various sectors	For every sub-sector, approximate credit need per unit is estimated (nothing is said about how is this done) and this is multiplied by the number of units to be coverted under the plan; highly simplified and unreliable	More detailed and logical estimation of cost of cultivation, fertiliser inputs, etc. made in various parts and used to estimate credit needs	No systematic attempt to estimate and project demand for credit; the attempt is to estimate how much the farmers or industrialists <u>should</u> demand rather than <u>will</u> demand	Credit requirements per unit have been worked out more systematically	Estimation of sectoral credit requirements same as in other plans; estimation methods ad hoc and inadequate	Method of estimation same but estimates likely to be better because of the superior baseline data

	1	2	3	4	5	6
5. Analysis and recognition of infrastructural and other constraints on development and viability of bankable projects	Analysis of other constraints to development is entirely absent; implicit in the qualities is the assumption that credit is the only bottleneck	Uses information of infrastructure and development plans prepared by government agencies at the district level while selecting bankable schemes	Brief discussion of infrastructure; no mention, recognition, or analysis of other constraints; discusses development plans of other agencies like SFDA, ITADP, etc.	Implicit assumption that credit is the only constraint; no discussion of existing infrastructure or prospects of its development	Organizational resource constraint is considered; immediate infrastructure requirements for the implementation of plans indicated	No special effort needed for this because the indepth studies of all blocks; development schemes like SFDA, etc. discussed
6. Financial feasibility analysis of important bankable projects and their sensitivity analysis	Brief, highly generalised proforma income statements for several projects presented; no analysis of the sensitivity of profit to changes in product price or cost components	Proforma income statements similar to the Bijapur plan presented; choice of projects is more sensible and based on indepth studies; no sensitivity analysis of bankable projects	No sound basis for choice of bankable projects; proforma income statements for a few projects; demand for industrial product considered for feasibility analysis projections not made	Same as in Bijapur plan	Proforma of income statements presented for a number of bankable projects; statements more detailed and assumptions made explicit so that statements are better guides to financial feasibility of projects	Proforma of income statements analysed; more detailed and likely to be more realistic because data are representative and more accurate

Source: District Credit Plans of respective districts.