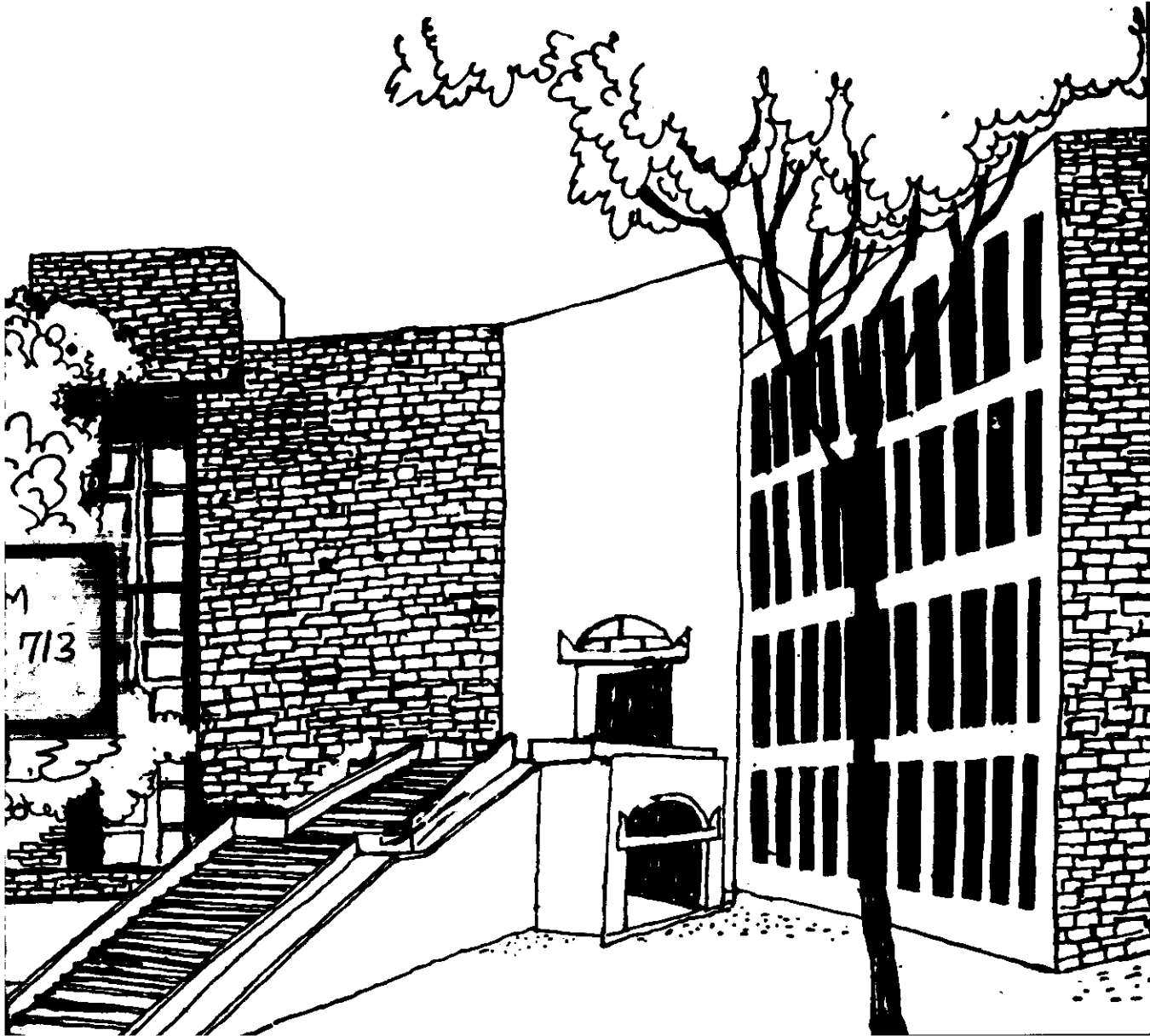




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PREPARATION AND IMPLEMENTATION OF  
CREDIT PLANS AT DISTRICT LEVEL

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## Preparation and Implementation of Credit Plans at District Level

### I. Introduction

Under the multi agency approach to rural credit Lead Bank Scheme (LBS) was introduced in December 1969 on the recommendations of the Study Group set up by the National Credit Council and the Committee of Bankers. The emphasis under LBS is to make banks an important instrument of local development by entrusting individual lead bank with the responsibility to find growth centres, assess deposit potential, identify credit gaps and evolve a co-ordinated programme of credit deployment in the district in consultation with other credit agencies.

The lead banks are to prepare comprehensive credit plans (DCPs) for integrated development of the districts. As such a DCP is a blueprint of action by the financial institutions for bringing about an overall development of the district. The main purpose of the district credit planning is to identify and arrange to implement a set of integrated schemes that can be financed by banks and other financial institutions. It is not only to fill the credit gap but also to fully exploit the forward and backward linkages in the allocation of credit funds. In the formulation of DCPs the concept of participative planning is introduced by involving the developmental agencies. District Consultative Committees were formed in each district to promote efficient implementation and coordination between financial, developmental and administrative agencies. It consists of the district

collector (chairman), Lead Bank Officer (convenor), representatives from commercial banks, cooperative banks, Regional Rural Banks, term lending financial institutions and developmental agencies in the fields of agriculture, small scale industries etc, besides the concerned district level departmental heads of the state government. In the meetings of DCCs views and information about lending to the priority sectors are discussed, bankable schemes are identified and methods of financing them in a coordinated manner are evolved.

So far three rounds of DCPs have been prepared and the fourth is being formulated for the remaining period of seventh five year plan i.e. 1988-90. The first round of DCP was beset with lot of problems. It lacked uniformity, focus and thrust and failed to align with the development plans. To correct this anomaly RBI has laid down detailed guidelines especially with respect to the estimation of outlay on account of i) crop loans, ii) term loans and iii) working capital finance. As such the second and third round of DCPs are much better than the first round of DCPs. However, all is not right with these DCPs. Problems are faced in their preparation as well as in their implementation which are the focus of this paper. Various rounds of DCPs for selected districts are analysed. The objective is to identify the issues relating to preparation and implementation of the DCPs. The idea is to make the DCPs a more effective instrument of development. For the purpose three districts Madurai in Tamilnadu Jind in Haryana and West Godavari in Andhra Pradesh are considered. All the three districts belonged to agriculturally developed states.

## II. Preparation of DCPs

Preparation of DCPs involves assessing resource potential, estimating the credit requirements for various sectors and sub sectors and allocation of targets to the banks operating in the district.

### A. Estimation of resource potential:

To assess the resource potential net likely accretion in deposits, likely repayment of loans and refinance from NABARD and IDBI are computed. Share money collection by the cooperatives is also taken into account. It may be mentioned that no standard scientific method was used in arriving at these estimates. The incremental deposits for the third round DCPs were arbitrarily assumed at 19 per cent and 10 per cent over the 1982 levels respectively for Madurai and Jind districts. Recovery was assumed at 50 and 60 per cent for commercial and cooperative banks respectively in Madurai district. The corresponding figures for Jind districts were 30 and 60 per cent. The estimate for refinance from NABARD and IDBI was made from the physical targets of their programmes/activities, scale of finance, margins for banks and borrowers etc. This component was of course computed more systematically. The accretion in deposits was further adjusted for statutory reserve requirements to work out the net availability. However, the basic flaw of arbitrary growth remains.

### B. Estimation of credit requirements:

For estimating the credit requirements of various sectors and

subsectors the lead bank collects information from various sources. The environmental and ecological data are collected from published sources. Various departments and banks in the district submit their programme for the period concerned. For example information is obtained from the departments of agriculture, animal husbandry, horticulture, sericulture, etc on activities to be financed. For schematic lending under IRDP information is obtained from the District Rural Development Agency(DRDA). Once the programme from various departments and agencies are obtained the next step is working out the credit requirements for the various sectors and subsectors.

The Standing Committee forms sub-committees for various schemes to work out the unit cost. These sub-committees consist of technical experts from government departments and bank officials. With the help of these norms the financial requirements for different activities are computed. The lead bank works out credit gap for each activity based on the financial requirements and likely generation of own funds by the people engaged in the activities. This credit gap need to be financed by the financial institutions located in the district.

#### C.Allocation of loan funds:

After estimating credit gaps for various sectors and sub-sectors targets are allotted to different banks operating in the district in consultation with the concerned district coordinators. The district coordinator in turn reallocates the targets under different schemes to the branches of his bank. The main criteria

for allocating the targets for a bank is its branch network and the past performance. Little attention is given to the location of its branches and their business potential. There is no fixed norm to appoint a district coordinator. Some banks nominate their rural development officers, some others their accountants and still others their managers as district coordinator.

One of the objective of planning is to judiciously allocate the limited loan funds among the activities such that integrated development takes place and its pace is accelerated through backward and forward linkages. However, seemingly these aspects are ignored. It is quite clear from Table 1. It shows that agricultural inputs system (AIS) is altogether neglected. Only in Madurai district a marginal allocation is made under this head. Similarly agricultural marketing and processing (AMPS) did not get due emphasis. In fact marketing per se was neglected excepting marginal allocation were made in Madurai district. Agro-industries were included but allocation under this head was low. Thus basically it was financing of production system(AFS). Here again only in Madurai district allocations to allied activities were significantly high. Among the farm finance activities crop loans received a major share. Machinery got significant allocations in Jind district and also in West Godavari. Irrigation was important in the loan portfolio in Jind district.

The above analysis indicates that backward and forward linkages did not get importance in credit allocation in three rounds of

DCFs. Though allied activities were financed their share in the allocation was low except in Madurai district. The low allocation to irrigation meant little addition to potential. Similarly low allocation to machinery in southern states implied less efficient agriculture in these areas. Thus the objective of integrated development through financing seemed lost in the process.

Table 1 : Allocation (%) to different sectors in the three districts

Sectors	Jind district	W.Godavari district	Madurai district
1.Crop loans	42.3	66.6	41.5
2.Irrigation	5.3	2.8	0.9
3.Machinery	20.9	7.6	0.7
4.Plough Animals	--	0.7	1.2
5.Land development	--	0.1	0.2
	68.5	77.8	44.5
1.Production activities	5.7	6.8	17.5
2.Servicing activities	0.4	0.6	1.8
	6.1	7.4	19.3
1.Agro industries	3.1	6.0	3.4
2.Marketing etc	-	-	0.6
3.Bullock carts	1.4	1.7	1.6
	4.5	7.7	5.6
Fertilizer & pesticide distribution	--	--	0.5
Non-agricultural	20.0	7.1	30.1

### III. Implementation of DCFs

#### A. Delegation of responsibilities

The implementation of DCFs are primarily carried out by the



participating bank branches in their respective areas of operation for schematic lending primarily for medium term credit. The cooperatives provide short term credit through PACS and long term credit through land banks for the entire district. As such there is hardly any competition among these institution for lending. However competition does exist in the mobilization of savings between the cooperatives and commercial banks and among the commercial banks operating in the area as no boundaries are prescribed for this function. As a result the commercial bank branches were more concerned with meeting the targets in deposit mobilization and ignore the credit function. this many a times had led to misidentification of borrowers and incorrect appraisal of their credit needs and default was the natural consequence. The default in Jind district was as high as 81 per cent for some bank branches in 1984-85.

As mentioned earlier the district coordinator allocates target to different branches of his bank in the district primarily on the basis of past performance. Very little thought is given to the potential. As such many a time targets are either not achieved or surpassed disproportionately. This could be a reflection on the wildness of estimates either because of unscientific methodology used or disproportionate efforts put in by the field staff for different types of loans. The former seemed more plausible. However, some evidence of the latter was also available. For instance allocations were made for fertilizer trade and marketing of fruits and vegetables in the third round of DCF for Madurai district, but the disbursement was nil.

Though the integrated financing was emphasised under the objective of DCPs in practice it was almost absent. The commercial banks were encouraged to finance working capital needs of the farmers but their advances in this regard were negligible. Some of the branches did not advance crop loans at all, especially in Madurai district.

#### B. Monitoring and follow up

Monitoring of lending programmes is carried out at different levels. At branch level under the Scheme Oriented Monitoring information on schemes being financed is compiled in the back up register maintained at branch level. Information on the on going schemes is submitted to NABARD in three statements: quarterly, half yearly and yearly returns. These returns are also submitted to the Regional Offices of the respective banks. Though some bank branches in the selected districts send these returns on a regular basis others were more irregular. Information on achievement of targets and difficulties experienced in the implementation of various schemes. Such information is discussed under review meetings of the DCCs for taking corrective actions and follow up. Though performance budgeting is followed upto branch level branches were only nominally involved in the planning process. As such even at DCC level neither the reporting of their problems was branch specific nor were the actions recommended precise for them and hence many a time the messages were misinterpreted.

Under the District Oriented Monitoring studies were carried out

by NABARD teams for individual districts every alternate year. These cover all types of schemes under implementation. The reports of DOM team were discussed in the DCC meetings. Various other issues and problems discussed in the DCC meetings range from general operational norms to problems confronted by individual branches. In one of the DCC meeting the range of issues included review of progress, actions recommended in the earlier meetings, monitoring of IRDP, crop loans by commercial banks, modification in the scale of finance for crop loans, issues raised in the DOM study, advances to public distribution agencies, etc. The actions recommended included issuing of loan pass books to the existing and new IRDP beneficiaries and collection of information on IRDP beneficiaries, increased crop loan financing by banks, having close liaison between banks and agricultural department in regard to crop loans, and actions in relation to issues raised under DOM study. In a way both SOM and DOM related information and data were discussed at the district level. However, inspite of all this, it is felt that the actions taken at branch level were not in line with the recommendations and often the same questions were raised and identical answers were repeated by various district representatives of the banks.

#### IV. Some Achievements

Table 2 gives the achievements under second and third rounds of DCPs for the three districts. It reveals that the achievements were disproportionately high for all sectors in Jind district for agriculture and allied activities in Madurai district and for other than agriculture in West Godavari district. Elsewhere the

achievements over 80 per cent. It implied incorrect estimation of credit gap for different sectors. Within agriculture and allied activities the achievements were less than the stipulated levels in Madurai district under investment in equipment and other items in 1981 and nonproduction allied activities in 1985 (Table 3) the achievements for no-agricultural sectors was less than adequate for both the AAPs. In case of Jind district, however, the achievements under AAF 1982 was disproportionately high across the sectors and under different heads under agriculture.

Table 2: Sectorwise Achievements Under Second/Third Round of DCFs (Rs. lakhs)

Sectors	Jind district (Second Round)	West Godavari district (Second Round)	Madurai district (Third Round)
I Agriculture & allied activities	3321 (187)	10908 (87)	17433 (166)
II Industries	514 (248)	2156 (200)	2406 (84)
III Others	677 (331)	562 (187)	3033 (81)
Total	4512 (206)	13626 (98)	22872 (133)

Figures in the parenthesis indicate achievement as percentage of targets

Table 3 gives the sectorwise summary of achievement for Jind and Madurai districts. It shows that the overall performance in credit disbursement under the DCF is good for all sectors. However, in relative terms the achievements are lower for small scale industries and IRDF financing. In other words, the two

Table 3: Achievement Under Third Round of DCPs for Jind and Madurai Districts

(Rs. lakhs)

Sectors	Jind district (DCP 1983-85)	Madurai district		
		AAP 1983	AAP 1984	AAP 1985
A. Agriculture & Allied activities	4800(193)	4684(146)	6515(217)	4303(100)
B. Small scale industries	507(103)	474(130)	736(195)	814( 38)
C. Other sectors	592(177)	588( 88)	1160(209)	882( 35)
<b>Total</b>	<b>5899(178)</b>	<b>5746(135)</b>	<b>8411(214)</b>	<b>5999( 67)</b>
IRDP	391(107)	---	953	554
Total Weaker sections	----	---	3673	2323
<b>Recovery Performance(%)</b>		<b>1982-83</b>	<b>1983-84</b>	<b>1984-85</b>
A. Agriculture & Allied activities	67	52	47	53
B. Smallscale industries	45	31	41	33
C. Other sectors	63	46	50	48
<b>Overall</b>	<b>66</b>	<b>49</b>	<b>47</b>	<b>50</b>

Figures in the paaarentthesis indicate per cent achievements of target

important aspects of forward linkages and equity are less emphasized. In Madurai district the achievements are less emphasized. In Madurai district the achievements are equally good for 1984 and 1984 but are low for 1985, especially for other than agriculture and allied activities. Similar are the achievements under weaker sections financing. Just like credit disbursement, recovery is relatively better in Jind district. It is relatively poor for small scale industries. In Madurai district though the

recovery marginally improved during the third round in case of small scale industries it remained low.

The figures for the sector as a whole do not indicate what is happening within the sector. In order to know that the various sub-systems of a particular sector got sufficient share in order to develop both the forward and backward linkages for the overall development of the district we've taken the agricultural system and non-agricultural system. Agricultural system consists of three subsystems: AIS, AFS and AMPS. AFS is divided into a) production i.e. crop loans, b) investment consisting of irrigation, machineries etc. c) allied activities which is subdivided into i) productive activities like dairy, sheep, piggery etc and ii) non-productive like gohar gas plants etc.

In the three districts no credit was disbursed to AIS (seed, fertilizers, pesticide, etc). There may be few input dealers operating with cash credit limits. It however, does not indicate any conscious effort to develop the system. Likewise AMPS received no credit support under the DCPs for the three districts. In West Godavari district in the second round of DCP. Crop loan recorded achievements of 57 per cent of the target. In case of equipments like tractors, threshers, carts, etc the achievements were 143 per cent and for agro processing industries like rice milling, oil extraction, flour mills the achievements were 456 per cent of the target. (Table 4)

Table 4: Achievements Under Different Portfolios

Sectors	(Rs.lakhs)			
	Madurai district		Jind district	West Godavari district
	AAP 1981	AAP 1985	AAP 1982	DCP (1980-82)
<b>A. Agri System</b>				
1. Input Supply	--	--	--	---
<b>2. Prod System</b>				
a) Crop loan	2769(210)	3939(164)	1221(141)	2133(87)
b) Investment				
i) Irrigation	14(175)	375(120)	80(145)	110(52)
ii) Equipments	49( 58)	229(120)	403(171)	708(143)
iii) Others	209( 77)	800(189)	71(296)	113( 86)
c) Allied activities				
i) Production	592(113)	839( 99)	132(128)	332( 81)
ii) Non-production	---	50( 37)	---	1
3. Marketing & Processing	---	---	---	1613(456)
<b>B. Non-agricultural System</b>				
	931( 86)	2479( 53)	463(138)	676(226)
All Sectors	4564(100)	8711(100)	2370(100)	5686(100)

Figures in the parenthesis indicate per cent achievements of targets

Among the branches of commercial banks in the selected districts the achievements varied widely. While some branches far exceeded their target some lagged behind (Table 5). Even within the sector there is lot of variation with regard to achievements among various loan portfolios.

Table 5: Sectorwise & Bankwise Achievements Under Second Round of DCP for Jind District.  
(Rs. Lakhs)

Banks	Agriculture	SSI	Others	Total
PNB	567(280)	175(282)	64(110)	806(250)
SBOF	119( 88)	82(200)	112(238)	314(140)
CBI	29( 59)	49(221)	19(100)	97(107)
NBI	27( 87)	5( 23)	9( 47)	41( 57)
DBC	113(332)	70(368)	30(158)	213(300)
SBI	260(510)	9( 47)	74(255)	342(349)
UCO BANK	18(112)	@( 1)	1( 30)	19( 79)
BOI	240(960)	33(183)	66(733)	339(652)
CO-OP & PLDBS	1947(158)	91( )	302( )	2340(190)
<b>Total</b>	<b>3321(187)</b>	<b>514(248)</b>	<b>677(332)</b>	<b>4511(206)</b>

@ less than 0.5

Source: Punjab National Bank, District Credit Plan(1983-85), Jind Haryana

#### V. Some Major Issues

It need no emphasis that DCPs are a useful instrument which if properly prepared and effectively implemented would help in achieving integrated development in the districts. The experience with three rounds of DCPs shows that these were not technically sound. Nor was their implementation smooth as reflected in the meetings of DCCs. At many places the achievements reported were laudable i.e. over 150 per cent of the planned programme indicating gross underestimation of targets while at other palces they were over estimated as revealed by the very low achievements. the poor overall performance in recovery is another reflection on defective formualtion and inefficient implementation of DCPs. In what follows is some major issues related to these two aspects of DCps.



#### A. Estimates of credit gap

The disproportionate achievement of target is a clear indication of inaccurate estimate of credit gap. Apparently the methodology formulated is simple and appropriate. However, there may be problems related to reliability of data and assumptions made on productivity of loan funds, acceptance of schemes by people, unit cost etc may be unrealistic. Furthermore the data supplied by the developmental agencies may be incomplete. It may be desirable that the lead banks should use the information supplied by the developmental agencies on planned targets as guide and assess the credit gap on the basis of the potential with respect to identified activities. It is stressed that the lead banks should maintain the base line data which should be updated and revised for successive DCPs. It would facilitate correct estimation of credit gap.

#### B. Estimation of loanable funds

It may be pointed out that except for refinance, other components of resource availability are arbitrarily assumed. For instance recovery is assumed at certain levels, deposits are increased by some percentage etc. A more scientific approach using potential savings, income generation from assets created with loan use, etc may be considered for precise estimates.

#### C. Allocation of loanable funds

1. Allocation of loanable funds are made for different activities and for different banks. the individual banks reallocate their targets among their branches. It was found that these allocations

were made purely on the basis of development programmes and number of branches of the bank but not on the the basis of potential for credit absorption or credit requirements in the command areas of the bank branches. Even the reallocations of target by a commercial banks to its branches by the district coordinator were similarly decided. As such the allocations were either inadequate or excessive. Sometimes reallocations are made on the request of the branch managers. In the final analysis some needy are left unserved or overfinancing and indiscriminate financing would be the consequence. Thus the objective of judicious allocation is nullified. It is therefore suggested that allocations may be made to individual branches at lead bank level on the basis of their potential for credit disbursement for different activities.

2. Equity and efficiency are two conflicting objectives of formal credit. Since the developmental agencies would be more inclined towards equity objective, it could be over emphasised leading to high lending costs and increased default as viability criteria is violated. It is therefore essential to strike at a balance in the allocation such that it serves the identified population and at the sametime the system remains stable.

3. Developing and exploiting backward and forward linkages is significant for integrated development of the district. In the successive DCPs this aspect is grossly neglected and allocations

are highly concentrated for the production subsystem. Even within the production subsystem, a major proportion of allocation was for crop loans. At some places allied production activities were given increased importance. Similarly at some place irrigation investment got significant share while at other places machinery was an important item financed. In other words emphasis at these places was shifting from only exploiting the potential to also increasing the potential and increasing efficiency respectively. It is suggested that activity mix financed should develop/ exploit linkages and generate potential and achieve efficiency in production.

4. Infrastructure development is crucial for efficient use of capital and credit at individual level. Development finance must facilitate their development. Examples could be road transport, storage, processing, electrification, market yards etc. In other words importance of indirect finance should be duly recognised.

#### D. Coordination

One main objective of lead bank scheme is to ensure effective coordination not only among the financial institutions but also between financial and developmental and administrative agencies. The objective is carried through DCCs/BCCs at district and block levels. Some important issues related to coordination are discussed below.

1. It is reported that the lead bank offices do not get adequate

response to its requests for information from the participating financial and nonfinancial agencies. This was evident from an approaching through lead bank office for certain data on credit programmes of some bank branches. The branch managers did not oblige us with the requisite information even after our repeated visits and requests through LBO.

2. At the branch level it was reported that the targets are imposed on them. They were not involved in the credit planning. Nor their feedback was valued accordingly.

3. The district coordinators, a link between the lead bank and individual branches many a time lack knowledge about the specific problems of individual branches and hence inefficiency prevails.

4. Though the wide range of issues regarding implementation of credit programmes in the area are discussed repeatedly in the DCC/BCC meetings, little follow up action was reported. While lead banks have no statutory control on banks/branches, developmental agencies participate only upto disbursement of loans. In other words delegation of roles is defective for effective coordination.

#### E. Monitoring and Control

1. While information under scheme oriented monitoring is submitted to NABARD and regional offices of the concerned banks by individual branches, in many cases they are more irregular.

Also the information reported sometimes is based on hearsay rather than on actual varification. As such the reported success is not real as is reflected from the detoriating recovery.

2. The district coordinators allocate and reallocate targets among thier branches. But the achievements are reported for all the branches of a bank collectively. As such monitoring at branch level is left entirely to the individual banks and lead banks had no linkages at branch level.

3. Monitoring is considered the function of finsncial agencies alone and developmental agencies are beleived to have no role beyond disbursement of loans. Thus many a time had led to default because of misidentification.

4. At branch level both technical and nontechnical staff were reported to be inadequate. It had led to problems of misidentification, incorrect appraisal and poor follow up adding to default. Lack of proper training was also responsible for poor appraisal and hence increased default.