Chapter I

INTRODUCTION
CHAPTER - I
INTRODUCTION AND REVIEW OF LITERATURE

Planning is basically a techno-economic exercise. It sets targets for the economy as a whole and purports to allocate the country's raw materials, labour, foreign exchange and other resources of the various branches of the economy. These targets are first couched in physical terms, related to agricultural and industrial production, the consumption levels to be attained and the social services to be rendered. Expressing the targets in such physical terms is called Physical planning. Physical planning requires financial planning for finance is the mobiliser of physical targets. The financial plan emerges, when the costing estimates in real terms has been translated into the terms of money. The outlay is to be fixed in terms of money and the sources of financing the outlay — taxation, credit, deficit financing and foreign aid — are to be recorded.

The financial plan has two main components — the credit plan and the cash plan. The credit plan fixes the credit requirements of the various units to finance for their targeted output, which could not be met with their own funds of working capital and arranges for it. Parallel with the credit plan, the cash plan regulates the amount of currency that the Central Bank of the nation is authorized to issue. The credit plan and the cash plan together play a crucial role in plan implementation. If the financial targets mismatch with the physical targets, the general price level is likely to get affected and spoil the entire planning exercise.
1.1 CREDIT PLANNING: MEANING AND DEFINITION

Credit planning is a new concept in Indian Banking. As Mello L.D. defines, "Credit Plan is the plan for development of hitherto neglected sectors which are vital to the growth of the Indian economy, namely, small-scale industries, small business, export, agriculture and backward regions of the country."\(^1\)

Credit plan is a means to help banks to deploy their resources according to national priorities. The credit plan contains development schemes, which are technically feasible and economically viable in the various sectors of the economy that can be financed by the commercial and co-operative banks and other financial agencies operating in a particular geographical area for the developments in a specified time.

The schemes are evolved on the basis of the agro-climatic and physiographic conditions of the area, available natural resources and felt needs of the local people. While formulating the schemes, development plans of the Government and other agencies are also taken into account.

The Lead Bank Cell defines, "A credit plan is a development plan for a specified area projecting technically feasible, economically viable and bankable schemes which can be taken up by the financial institutions operating in that area".\(^2\) Technically feasible in this context means that inputs, facilities and services required for implementing the schemes. The market exists to the resulting incremental outputs. Economic viability means the incremental money
and the income available to repay the loans with interest in the normal period of banking operations.

Kanvinde D.J. defines, “Basically credit plan is an exercise in indicating the lines on which credit can be extended in a given area in a given period of time, on the basis of the anticipated demand for credit, from existing or development induced economic activities.” This definition points out that credit planning can be exercised in a particular area in a particular period, anticipating the demand for credit.

Credit plan can be taken up for financing by financial institutions. Therefore, the credit plan should reflect both the needs and the potentialities of the area on the basis of information or data collected through the village survey and other available information obtained from the local development agencies such as Block authorities and officials concerned with agriculture, animal husbandry, irrigation, small scale industry, and service sectors of the economy of a district. Indeed, the credit plan provides a link between the bank’s lending for priority sector, secondary sector, tertiary sector activities and the government subsidy programmes. Credit planning is a conscious effort on the part of the banks to allocate their loanable funds in favour of priority sectors according to overall national policies.

Credit discipline is one of the significant facts of the credit planning. Credit planning by banks will not bring credit discipline. If the total availability of funds to the unit kept under observation to ensure alignment with production
trends credit planning will succeed effectively. The role of non-institutional finance agencies in the financial market has to be reduced in order to make credit planning more effective.

1.2 TYPES OF CREDIT PLANNING

Credit planning relates to the management of credit system of a country relates both the Government and the private sectors. Credit planning is mainly classified into two types. One is micro level credit planning and other is macro level credit planning.

1.2.1 Credit planning at the micro level

Credit planning has to be translated at the micro level - that is at the individual bank’s level. There should be greater efforts on the part of individual banks to formulate appropriate credit plans at the micro level in the context of the overall shortage of lendable resources and in the light of the directions and guidelines given by the Reserve Bank of India on broad sectoral deployment of credit.\(^5\)

At the micro level, each bank is required to prepare credit budget in the prescribed form after taking into account the guidelines of the macro planner and after dialogue with major constituents. In addition to credit budgeting individual bank undertakes performance budgeting on annual basis and prepare The District Credit Plans for the three-year period under lead bank scheme with action plans for each of the three years. The individual bank’s credit budgets are meshed with macro credit plan after the discussion with the Reserve Bank of
India and thus the national credit plan emerges, broad parameters of which are made known to the banks.

The formulation of the credit plan at the micro level has to take into account its size, resources, geographical spread, functional coverage and organizational set up and, above all, it requires a proper management information system and an efficient statistical base. The preparation of a credit plan by a bank will again be mainly dependent on the co-operation forthcoming from the constituents and to the extent to which borrowers are prepared to give realistic assessment of their credit demand and cash flow statements.

1.2.2 Credit planning at the macro level

The starting point in macro level credit planning is the formulation of a monetary budget, which provides plans for monetary expansion. Having given the postulated rate of growth in real national income, the plan for monetary expansion provides for a slightly higher rate of increase, even on the assumption of price stability. Formulation of the monetary budget is followed by estimation of deposits, working out loanable funds after providing for statutory pre-emptions and sectoral and regional allocation of funds in alignment with plan priorities, after discussion with the major user organizations. This macro credit plan has to be disaggregated for implementation by the individual plans. All these tasks are performed by the Reserve Bank of India in its capacities as the central bank of the country.
1.3 SIGNIFICANCE OF CREDIT PLANNING

India, as a developing country gives importance to the simultaneous growth of agriculture, industry transport, banking and financial sectors. In fact, without this simultaneous development of the real or physical sectors on one side and the banking and financial sectors on the other side, it is difficult to achieve a rapid rate of growth. Till 1969, the bulk of bank credit went to the large industries, but the agricultural and the small and tiny sectors were completely neglected. Besides, banking services were availed of by the higher income groups and were denied to the weaker sections of the community. Finally, the banking services were available for the people in the urban areas while the rural people had no chance of getting the benefits of banking.6

To achieve the banking system, free it from the clutches of a small group of industrialists and businessmen, encourage or even force the banking system to go in a big way to rural and semi-urban areas, specifically concerned with the neglected sectors of the economy and sections of the community and to diversify its activities credit planning at micro level as well as macro level was required. The salient features of credit planning are

Physical planning without financial planning (which includes credit planning) is always a negation of planning, for plans drawn without any regard to the availability of financial resources often fail to achieve targets. Measures to mobilize financial resources through taxation directly may adversely affect the propensity to save and in that context extending credit
for production leading to utilization of real resources will help to raise the power to save and capital formation.

In mixed economies, credit planning has an added significance. The private sector is assured of assistance and finance is made available only under certain conditions.

Of credit planning and cash planning, the former lends itself to micro studies for credit is largely mobilized and disbursed at the micro level.

1.4 FORMULATION OF CREDIT PLAN

Based on the recommendation of the Gadgil study Group and the Nariman Committee, the Reserve Bank of India (RBI) formulated the Lead Bank scheme in December 1969. It gave a concrete shape to the 'area approach' for banking development. One of the important banks operating in each district is designated as Lead Bank. It plays the lead role in evolving plans and programmes for the overall development of the district. The Reserve Bank of India issued a detailed guidelines in March 1979 to all the Lead Banks indicating the objectives, the contents and the methodology for estimation of credit needs, the modalities to be followed and the credit based on-going development schemes of the government and all other development agencies in the district.

1.4.1 Lead Bank – Leader of Formulation of Credit Plan

The Lead Bank conducts socio-economic surveys in the district. It obtains details of developmental programmes from different government departments, forms an idea of development potentials, makes an estimate of credit needs and
prepares a credit plan for the district. The resources available for meeting the credit plan by way of deposits, including additional deposits to be mobilised and the funds that could be obtained from the Head Office should be kept in view to finalise the plan. The Lead District Manager is the senior most Branch Manager of the Lead Bank of the concerned district. He provides necessary guidance and support to all branch managers of the banks in the district to prepare annual credit plans together with annual leading programme drawn up by each branch. These annual credit plans of all the branches in the block are aggregated into a block credit plan. The priority sector activities proposed to be financed in the area of the semi-urban centres in the block may also be added for the purpose of the block credit plan. The Lead District Manager puts together all the data in the block plans and draws the draft of the The District Credit Plan. This draft is circulated to all the banks, the different development agencies and the concerned departments in the district.

1.4.2 Formulation of District Consultation Committee

On receipt of the comments from the concerned agencies, the draft of the plan is revised and submitted for discussion at the meeting of the District Consultative Committee for finalising the plan.

The Committee serves as a common platforms for the bankers and the Government officials to solve the problems encountered in the implementation of the various developmental activities in the district. The Lead District Manager is the convener of the committee and the District Collector is its Chairman. Eight
or nine banks operating in the district are selected on the basis of their branch network, priority sector lending and share in the District Credit Plan. The committee includes members from the side of the above mentioned financial institutions and the senior manager of the National Bank for Agriculture and Rural Development (NABARD) and the government officers from District Rural Development Agency (DRDA), District Industrial Centre (DIC), Agriculture, Industry, Animal husbandry, Small scale industry and special members relevant to the agenda. The overall strength of this committee is maintained at a compact of 30 - 35 members so that the discussion at this forum is meaningful and result oriented.

This committee is expected to meet at least once in a quarter to perform its functions, discuss the credit plans of different branches; review the progress in the implementation of block credit plan and the performance of each branch in relation to its branch credit plan and review the progress in the implementation of the Government-sponsored programme. Apart from this committee, there is a District Level Review Committee consisting of the District Collector as Chairman; the Lead District Manager as Convener and all the District Consultative Committee (DCC) members, MPs’ and MLAs’ of the concerned district as members. It meets half yearly to evaluate the overall progress of the various schemes in the district identify the problem areas and devise suitable remedial steps.
1.4.3 Steps in the formulation of Credit Plan

The following are the major steps involved in the formulation of credit plan. They confirm the technical feasibility of the activity, establish the economic viability of activity; and estimate the potential number of technically feasible and economically viable units. They, further, estimate the number of units which requires credit and the quantum of credit available from the bank under the credit plan. They also determine the non-credit inputs such as raw material supply, marketing arrangements, training, extension of services and infra-structural facilities.\(^7\)

1.4.3.1 Technical feasibility of the activity

The first step in the formulation of credit plan is to confirm the technical feasibility of an activity. The knowledge of relationship between resources and production possibilities is essential for identifying the technical feasibility of an activity. This task is technical in nature, and falls within the purview of concerned Government departments or other agencies. For example, the cropping pattern takes into account soil, and climatic conditions. It has to indicate the ground water potential, suitability of a particular breed of cattle for dairy development in the area, are accepted functions.

The existing activities, which have been carried out quite successfully, are taken as an indication of their technical feasibility. Therefore, while preparing credit plan, it may not in all cases be necessary to test the technical feasibility of such on-going activities. The concerned government departments at district level
and NABARD would certify their technical feasibility. It is the duty of Lead Bank Officers to keep the branches informed about the technical feasibility of the new activities.8

1.4.3.2 Establishing Economic Viability of an Activity

The second step in the formulation of credit plan is establishing the economic viability of an activity. As all technically feasible activities are not economically viable, testing the economic viability is necessary. This requires data regarding necessary inputs and their costs, output and prices. While the former would help to work out the cost aspect, the latter facilitates calculating the income side. These data have to be realistic, having local relevance and applicability.9

1.4.3.3 Estimating the volume of technically feasible and economically viable activity

The third step in the formulation of credit plan is estimating the volume (number of units) of technically feasible and economically viable activity. This aspect of credit plan can be divided into two parts. The first part explains the basic idea and approach for estimation of volume of any activity. To enable the branch managers to understand the approach, the Reserve Bank of India (RBI) with the help of dairy and crop activity illustrates it. The second part focuses on the practical aspects of application of this approach by the branch managers in the live situations.
Having ascertained technical feasibility and economic viability of the activity, it is necessary to work out number of units, which can be sustained in the specified service area. Obviously, volume of an activity would depend upon supply of resources needed to carry it and the market for its output. Hence either of them can act as constraints in determining the volume of operation. Thus interplay of supply of resources and market for the produce determines the volume of an activity. It is, therefore, important to identify the critical constraining factor, either on the resources side or as marketing factor that restricts the size of the activity.

Generally, the supply of resources, is the critical constraining factor in determining the volume of activity. For instance, ground water potential in the case of wells, infrastructural facilities such as veterinary services in respect of dairy, poultry, technical or extension services with regard to propagation of high yielding variety crops. Experience gained in respect of the same type of activity financed in the service area can also be helpful.\(^\text{10}\)

In case of trade, service and demand based industries, which have to depend on local demand, the size of the marketing facilities is a crucial factor especially in case of those activities of which market may be outside the village. For obtaining the critical constraining factor, it is not necessary to list all the resource items on supply side and then to quantify their capacity. The simple method of identifying the critical factor is that the branch manager should ask himself with reference to an activity-what is the major obstacle responsible for
restricting its size or which is a major problem coming in the way of increasing its volume? Answer to this question will reveal him to correct critical constraining factor. Likewise, branch manager can obtain it for different activities in vogue in his service area.

Generally the manager who has spent six to twelve months at the branch will be able to perform the job or identification of the critical constraining factor without any difficulty. After completion of identification of the critical constraining factor, the manager should consult NABARD, the Government functionaries at village level workers, village panchayat, village doctors, cooperatives, school teachers and postmasters. Thus in order to know the potential volume of any activity, it is necessary to identify the critical constraining factor so as to estimate the extent up to which it is possible to expand an activity during the credit plan period. The main difficulty in this regard is the availability of futuristic data.

The branch managers are supposed to utilise the knowledge and experience of the block level staff, who are well conversant with the conditions prevailing in different villages and the limitations and short comings obstructing the growth of various activities about the extent to which critical constraining factor is likely to be mitigated in terms of number of units and rational underlying. This would help in estimating the volume of the special activities that could be taken up in different villages immediately and near future. A clear-cut picture about what is feasible in short-run and medium run will emerge. The Lead Bank officer is required to help the branch manager in this regard. This approach
enables the branch manager to identify the critical constraining factors and the quantifying potential volume of activities. It ensures consultation and involvement of Government agencies, which are expected to extend vital support to activities covered under village credit plan by providing 'non-credit inputs', estimating the number of units, which require credit and the quantum of credit available from the bank (credit plan).  

1.5 EVOLUTION OF CREDIT PLANNING IN INDIA

Although Economic planning commenced in India in the early fifties, credit planning, which must have been an integral aspect of the growth process, did not receive due attention up to late sixties. The mechanism of credit planning has been in operation in India only after the nationalisation of the Commercial Banks. The Reserve Bank of India has continued to hold discussion from time to time with major users of credit in the private and public sectors and commercial banks in order to get an idea of the demand for credit. These techniques of credit planning are designed to bring about a structural change in the commercial bank credit. Three instruments - national targets for bank lending to priority sectors and in rural areas, Credit Authorisation Scheme and Lead Bank Scheme - have been used in more recent years to bring about the desired changes in the structure of Commercial Bank credit.  

In the early seventies, due to the growing emphasis on balanced regional development and control of inflationary pressures, the need for rational resource deployment among the various regions/sectors as well as strong monetary
measures, together with fiscal and administrative restraints on spending, was
seriously recognized. This requires credit planning at the micro level as well as
at the macro level starting from the level of a bank's credit plan up to monetary
management at the macro level.

"Credit Planning as an instrument of overall monetary management was
in operation by 1975 and banks began to work out their plan on a half-yearly
basis in that year". 13 The purpose of those early credit plans was to identify the
main sources of funds, especially deposits and envisage the likely addition to
disposable funds-excluding borrowing from the Reserve Bank of India over the
half-year. It was in view of two-fold purposes - first to ensure the resources to
the Reserve Bank of India and secondly to secure an increasing share of
commercial bank advances to the priority, export and good procurements
sectors. In 1976, credit planning was adopted on a quarterly basis. The form
and content of credit planning is represented by dialogues (with the users of
credit and financial intermediaries) and discussions. The plans show the trends
in each field and also the distribution of purposewise advances and for the
priority sectors. Credit planning starts at the bottom from the unit level and
covers the entire banks. By adding up the plans of all banks, the Reserve Bank
of India has an overall picture of the credit plans for the banking system.

The banks are to be encouraged to put forth their maximum effort in
deposit mobilization and branch expansion, in order to achieve a better balance
in allocation of credit for priority sectors and for development and financing of
small borrowers or backward areas. The Reserve Bank of India also holds individual discussions with the major users of Bank credit. Reserve Bank of India formulates the credit policy and announces it at the banker's meeting, which is usually held in November every year.

Credit discipline is one of the significant facets of credit planning aimed at qualitative improvement in credit disbursal. Directing credit flow to the credit-starved productive ventures is important. The Reserve Bank of India has given a reorientation to several aspects of the credit policy. Under credit authorisation scheme, banks are required to seek prior authorisation from the Reserve Bank of India in respect of prevailing credit limit.

The new Bill Market Scheme introduced in November 1970 marks considerable improvement over the cash credit system of lending by checking misallocation of cash credit or, misuse thereof. Under this scheme the amount and the date of payment are fixed in advance. Selective credit control has been in operation in our country quite effectively. It maintains different levels of rate of interest with the size of credit under some provisional criterion, imposition of minimum margins or secured advances and deciding commodity wise or firm wise ceilings on advances against particular limit.

The Reserve Bank of India regards the interest rate policy as an important instrument of credit planning. The credit planning intends to restrain the over all size of credit expansion season by season or year by year. It channelises credit according to accepted priorities of various sectors interest rates which were
raised during the inflationary period of the 1950s through 1980s. Different interest rates with reference to the borrower came to be prescribed by the RBI for the first time in August 1967. Over the last decade or so, this reliance on interest rate policy increased both for regulating credit expansion and for its sectoral deployment.

The Reserve Bank has issued the broad guidelines for credit deployment. It is consistent with policy objectives that constitute the macro approach to credit planning and monitoring of credit deployment at the individual bank level.

Considerable progress has been made in the field of credit planning. But it has been on an annual or quarterly basis. The various difficulties involved in adequate credit planning have begun to be realised because the credit plan is a short-term instrument of control. Though it can very roughly or approximately anticipate the resource requirements and deployment at the national level, it really moves on to different plans altogether.

The macro level credit plans have been formulated in the national level. For decentralising credit plan, a district level credit plan is formulated under the guidance of RBI in order to develop the economy of the district to achieve balanced development.

1.6 DIFFERENT ROUNDS OF THE DISTRICT CREDIT PLAN

The District Credit Plans are means to help banks to deploy their resources according to national priorities. The District Credit Plans have been formulated at various stages of implementation.
The first round of The District Credit Plan under the lead bank scheme was completed by March 1978. These The District Credit Plans were not uniform in regard to coverage, methodology or period. Though considerable efforts were put in by the lead banks in their preparation, the plans did not fully serve the purpose intended. In particular, the District Credit Plans were not aligned with the development plans of the district and adequate emphasis was not given even to agriculture and allied activities. These plans did not take into account the role of co-operatives which were an important source of Institutional credit in rural areas. Due to these deficiencies, in September 1978 the lead banks were advised to terminate the first round of the District Credit Plan at the end of 1979.16

The second round of the District Credit Plan covering the calendar years from 1980-82 synchronised with the sixth five year plan (1980-85) together with Annual Action plan, prior to the commencement of each year. The second round of the District Credit Plans introduced Annual Action Plan as an operational component in the block wise disaggregation of the District Credit Plans outlays. It provided with the formula for estimation of crop loan requirements.

The third round of the District Credit Plans was formulated on the basis of fresh guidelines issued by RBI in February 1982. The third round of the District Credit Plans covered the period between January 1983 and March 1985, in order to make them continuous with the balance of the sixth plan period. This helped the District Credit Plans year to switch over to the financial year – April to March
- to bring about greater co-operation between governments and banks in the formulation and implementation of various programmes. The third round of the District Credit Plan laid more stress on optimum use of land, labour and financial resources for promoting production and productivity. The main objectives of the third round of the District Credit Plan was increasing production and productivity; removal of unemployment and underemployment; reduction of inequalities; greater financial assistance to the weaker sections of the society for productive purpose to the maximum extent possible and non-inflationary expansion of credit.

The new the District Credit Plan (1983 - 85) mainly included those programmes taken up by banks on their own to fulfill their commitments in respect of priority sector advances as well as those for providing institutional credit support for programmes eligible for government subsidies under the 20 point economic programme, Integrated Rural Development Programme, and special programmers for Scheduled Castes and Scheduled Tribes. The third round of the District Credit Plans ended in March 1985.\textsuperscript{17}

The fourth round of the District Credit Plan with Service Area approach and village credit plan was prepared for three years 1988, 1989 and 1990. Some of the schemes drawn from the plans of various departments were for financial years. While preparing the fourth round, the banks took into account their past experience of financing certain schemes and the need to finance new activities. While formulating new bankable schemes, more emphasis was attached to minor irrigation, dry farming, oil seeds and waste land development. It also focused on
the employment oriented schemes and those involving local resources to augment the income of the area. Poverty alleviation programmes were also financed as a part of the District Credit Plan. The credit planning exercise has undergone many changes. The present system every bank branch is directed to prepare an Annual credit plan for the service area covering 9 to 10 villages. Such credit plans for the entire district are then reconciled together to make the District Credit Plan.

1.7 PROBLEMS OF CREDIT PLANNING

In the developing countries, there is a vast non-monetised subsistence sector, which is in no way integrated with the organized monetary sector, and this will blunt the efficacy of any financial planning. Such planning demand for credit has to precede planning for supply of credit.

Such countries seek to achieve increased incomes and employment by breaking the structural obstacles, which hinder growth and hence is called "bottleneck breaking". This entails that credit should be channelised through planning institutions.

Liberal credit without any monetary mechanism will spell disaster. In the Soviet Union, credit planning was successfully implemented because in that country all the units of production were either owned or strongly controlled by a single authority. 'No Plan No Loan' was the watch word and hence "Control by the Rouble" was made possible.
Evidently, the nature of credit planning in the totalitarian countries and democratic regimes differ. In the later regimes, planning of credit means only planning of credit made available to the private sector under the plan schemes. Credit to public sector plan schemes is not included in the credit plan. Similarly, the credit institutions are not prohibited from lending to non-Plan schemes however the distinguishing feature of credit planning in these countries is that it not only facilitates but also regulates credit to the private sector.

1.8 REVIEW OF LITERATURE

A review of past studies helps to understand the scope of the present study and provides the framework for analysis and drawing inferences. Such an attempt is useful to identify the existing research gaps. The present study makes an attempt at reviewing earlier studies to evaluate the role of credit planning in Kanyakumari district.

Aggarwal (1971) in his article, *Industrial Credit for Agriculture in Malwa* observed that borrowers had utilised their borrowings for non-productive expenditure, which provided disincentive for the institutional agencies.\(^{19}\)

Sharma and Srivastava (1971) in their study, *Margins of Co-operative Credit Institutions and Farmers Borrowing Costs* stressed that the total expense incurred by farmers in getting crop loan from banks was high. The higher the loan amount the higher will be the expenses also.\(^{20}\)
Sisodia (1971) in his study on *Institutional Credit for Agriculture in Indore District* stated that nearly 47 percent of the total loan was utilised by the members for the purpose for which it was actually obtained and the remaining 53 percent was utilised for other purposes, mostly for unproductive use.21

Ramamoorthy (1972) in his article, *Credit Needs and Availability to Farmers* stressed the importance of co-operative as a major source of credit and concluded that commercial banks had made a significant contribution in the field of agricultural finance.22

Hanumantha Rao (1975) in a case study *The small Farmer and Asset Structure* in Vishakapatanam District found that co-operative finance was more accessible to big farmers, and that small farmer was under perpetual obligation to money-lenders.23

Johncole (1976) in a study on *Rural Poverty* stressed that one of the ways to bring peasants into the cash economy is to give them paid work they can do in their spare time. Rural people can be trained to make furniture, implements and tools both for their own use and to sell.24

K.S. Krishnaswamy (1979) in his study on *Credit Planning and National Economic Planning* revealed that the banking industry is a very large sector of the Indian economy now. It provides major sources of employment for the young educated labour force in the country. Credit planning will continue to be a somewhat loose instrument. It will be much more in nature of the framework for its resources than it is able to do now25.
K.S. Krishnasway (1979) in his study on *Credit Planning and National Economic Policy* revealed that there are various difficulties involved in adequate credit planning, because essentially the credit plan is a short term instrument and it will continue to be a loose instrument because it will not be possible for a bank to fully anticipate the credit needs and demands beyond three months. Realistic credit planning requires that the bank is able to anticipate both its resources and the demand for its resources much more precisely for a long period. The way out is to integrate the credit planning with the economic activities formulated in the development plans by the government departments besides mandatory lending programmes.26

K.V. Rao (1979) in a study on *Micro Approach to Credit Planning* observed that in India, banks have not yet built up a comprehensive system of credit planning due to the lack of effective information system and consequently, it has not reached the expected degree of sophistication.27

It is noticed in the *Rural Banks* of Charan D. Wadhva (1980) that all loans granted by the commercial banks under the Differential Interest Rate (DIR) scheme to the weaker sections of the rural society must be made through the Regional Rural Banks in their areas of operation.28

A book entitled *Rural Development in India* edited by T. Mathew (1984) observed in a case study of Panitola block in Dibrugarh District in Assam, that most of the households preferred loans from moneylenders and traders. The reason for this preference is that the non-institutional agencies provide loans for
all purposes including consumption at any time they required. It is further observed that there is a strong feeling among the rural poor that credit facilities from financial institutions are meant only for the upper strata of the society as they alone can provide the required security.29

Tandon (1984) in a study on Commercial Banks and Backward Areas revealed that credit utilisation with respect to deposits grew at a faster rate in backward states than in developed states; the proportion of credit sanctioned by banks in backward states increased to the proportion of deposits mobilised in these states; disparities within the backward states were much wider than those within the developed states, and generally, nationalised commercial banks narrowed down inter-state differences.30

Panda (1985) in his book, Agricultural Indebtedness and Institutional Finance stated that co-operative and commercial banks channeled more of their funds to medium and large-size farms. As far as chronic defaulters were concerned, it was found that medium and large farmers were the major defaulters; the size of the loan; utilisation of the loan amount for non-productive purposes and repaying capacity were the major factors influencing over dues at the farmers' level.31

Seshaiah (1985) in his book, The Lead Bank Scheme - An Empirical Evaluation pointed out that lack of sufficient understanding of the scope, objectives and significances of the scheme by the people and institutions involved in the formulation and execution of the scheme, difficulty in getting
reliable data, adoption of different reference period by different agencies for compilation of data, ineffective decision making at District Consultative Committee meeting, handicaps in the preparation of credit plans, non-availability of motivated, committed and responsive personnel for manning rural branches, adoption of uniform norms without taking into account the varying local conditions and lack of adequate co-ordination among banks and financial institutions were the main problems faced by Lead Bank Scheme.32

G. Narayana Reddy (1986) in his study on Rural Dynamics and Development revealed that the development schemes leading to material prosperity without ethical discipline of hard work, thrift, saving and investment tend to cause social disruption instead of bringing about social development. The “Loan melas” of commercial banks which created a dole receiving mentality among people who only want to know what the government will give for them, without the simultaneous sharing of responsibilities.33

Santosh (1986) in his study on Lead Bank Scheme in Assam pointed out that the Lead Bank in Assam had not achieved its targets. Inter-district variations are vast, branch expansion and rate of recovery are poor and infrastructural facilities are also not developed.34

A.K. Srivastava (1986) in an impact study of Integrated Rural Development Programme noted that isolated attempts and adhoc programmes are not the answer to the problems of the “rural poor” and “rural weak”. The
situation of the rural poor can only be improved if they are integrated into an over all system.\textsuperscript{35}

Banerjee (1987) in his article, \textit{An insight into the Performance of Lead Bank Scheme} stated that lack of infrastructural facilities, inadequacy and non-availability of development data, economic non-viability of the bankable schemes, absence of effective co-ordination among banks and other financial institutions and government agencies were the main reasons for the dismal performance of the Lead Bank scheme.\textsuperscript{36}

Chawla (1987) in his book, \textit{Nationalisation and Growth of Indian Banking} stated that the nationalisation of commercial banks helped the development of banking service through vigorous branch expansion programme. Deposit mobilisation had shown great progress, banking habits of the people showed a remarkable change; marked increase was noted in depositors’ accounts, especially in rural areas. The study also revealed the poor quality of lending and pointed out that the factors leading to poor quality of lending were faulty identification of borrowers and schemes, improper counselling by the bankers and inadequacy of loan amount leading to discontinuation of activity or diversion of loan amount.\textsuperscript{37}

Chippa (1987) in his book, \textit{Commercial Banking Development in India – A study of Regional Disparity}, revealed that the major share of Bank offices, deposits and credit was claimed by Gujarat, Maharastra, Tamil Nadu and West Bengal. He further concluded that the decline in regional disparity was generally
due to the positive growth in banking development in low-developed states and a declaration in banking development in the highly developed and moderately developed states.\textsuperscript{38}

Mehrotra (1987) in his book, \textit{Institutional Credits and Agricultural Growth with Special Reference to the Needs of Small Farmers} stated that the reliance of small farmers on private agencies in all the regions was greater as compared to that of medium and large farmers and suggested that the credit needs of agricultural producers should be assessed on a rational basis taking into account differences in agro-climatic conditions existing in different regions.\textsuperscript{39}

Srivastava (1987) in his book, \textit{Institutional Financing of Agriculture in India} pointed out that more than half of the loans and advances provided to farmers came from the co-operative banks and co-operative societies. He also pointed out that over due was high in commercial banks, the main causes being diversion of loans from productive purposes to unproductive purposes, inadequate supervision, unsatisfactory management, political functional and other considerations.\textsuperscript{40}

Thingalaya (1987) in a study on \textit{Banking Development in India Since Independence} pointed out that nationalisation had enabled the banks to tap the deposits of the rural masses and that it helped to cultivate saving habits among rural masses.\textsuperscript{41}

J.D. Mohile (1988) in his article, "\textit{Impact of Financing by Agricultural Development}" assessed the impact of financing by the agricultural development
branches with special reference to its dismal performance for the development of dairy that was an income generating activity to the village people. The study stated that the main reasons for the failure of dairy scheme were inadequacy of the loan amount for the purpose of good quality animals, ignorance of the borrower regarding proper maintenance of the animals, ineffective arrangement for purchasing animals in some districts, non-availability of good quality animals, poor-marketing arrangements and the borrowers continuing to depend on wage income instead of self employment for their livelihood.42

The book ‘Rural Development - An inside look at Problems and Prospects’ edited by R. Subramanian (1988) states that for better results in rural development it is necessary to bring together three major constituents identified here as partners in rural development. They are Technocrats, (Government functionaries), Academics (Planners) and Democracy (The People’s Forum). They have to be brought together in a right combination to suit a particular set of condition.43

A.K. Agarwal (1989) in an attempt to suggest New Strategy for Rural Poor, indicated that under the wage good strategy, the surplus labour force or the people below the poverty line can be put to work on capital projects, like irrigation, drainage, roads and dams. As a consequence, these people can be a source of capital formation without any strain on the financial resources.44

S.S. Agarwal (1989) in his study on Strategies for Rural Development stressed those three points for rural development must be recognised. First, the
transfer of people from low productivity agriculture to more rewarding pursuits
second, the control of unprecedented rate of growth of population, and third
mobilization of capital to improve the quality of life.  

Basant Mehta (1989) in his book, The Organisation and Working of Lead Bank Scheme in India stated that Lead Bank Scheme had been able to reduce regional disparities in the economic development in the different districts. Further the study found that banks and other financial institutions had been successful in providing an increased amount of finance per unit and total finance to different sectors of the economy. The study clearly indicated that the magnitude of development in a given period of time might be greater in a less developed area than in a comparatively developed area. The study concluded that though the beneficiary was earning enough money by using the loan and was in a position to repay the loan, he did not yet have the intention to repay the loan in time. 

Prasad and Roy (1989) in a study on Utilisation of IRDP Loan stressed that only 50 percent of loaners had properly utilised the loan, whereas 26 percent had partially utilised it and 24 percent had diverted the loan. The recovery percentages of properly utilising, partially utilising and the diverting groups of loaners were 56, 34 and 64 respectively. The study further showed that the recovery percentage of the diverting group was better than that of other two groups. The reasons pointed out by them were that a considerable percentage
of the diverting group had purchased cattle, which had given more income to them.\textsuperscript{47}

S.S. Sangwan (1989) in his study, \textit{Viability of Rural Credit Structure} attempted to identify the factors, which have affected the viability of lending activity in rural areas. The study revealed that in view of sound banking principle the profit making Regional Rural Banks preferred to invest more of their funds at call and short notice than loans and advances to weaker sections.\textsuperscript{48}

\textit{Report of the Agricultural Credit Committee (1989)} pointed out that unless the concerned government department and banks realise the value of accurate statistics for planning and set about compiling reliable time series, the credit plan estimates based on these statistics cannot but be tentative. It also pointed out that The District Credit Plan are not being dovetailed with district development plans and as a result, disaggregating of these plans into branch specific plans will not serve the credit needs at the local level.\textsuperscript{49}

V. Eswara Prasad \textit{et al.} (1990) conducted an impact evaluation study of \textit{Integrated Rural Development Programme in Anantapur District} in Andhra Pradesh. The study revealed that a substantially larger proportion of the sample beneficiary (86.67 percent) crossed the poverty line as compared to the non-beneficiaries (58.18 percent).\textsuperscript{50}

Manmohan Singh (1990) in an analytical study of \textit{Weaker Section and Credit Facilities} in a village near Amristar observed that those who had taken loans for lathe machines had paid Rs. 400 to the industrial officer for getting
project report prepared and later they paid in kind to the field officer. It is observed that lack of connection or network is one of the main reasons why the poor are made to part with their share of subsidy and procure loan from the non-institutional agency, like moneylender or cultivator to bribe the officials.\textsuperscript{51}

Ojha (1990) in his article, \textit{Service Area Approach - A New Challenge for Banks} emphasised that credit planning under the Service Area Approach should be synthesised with development planning, and in fact, the latter should precede the former. He recommended that the State Government should initiate immediate steps for decentralised development planning and make available to banks, if not village, at least block level development plans at the earliest. The involvement of the state government should embrace all rural development activities not confined to state sponsored or subsidy linked schemes like IRDP.\textsuperscript{52}

Desingn Setty (1991) in his book, \textit{Rural Development Problem and Prospects} revealed that the banks are to motivate the individuals and to do so, they have a role to educate the community in which they operate. The study concludes that the banks have increased paper work, - the number of returns and reports - more than tangible actual accomplishment in the field.\textsuperscript{53}

Ramola and Negi (1991) in a study on \textit{Service Area Approach - Key to Rural Lending} pointed out that the Indian banking system had already achieved the basic infrastructural facilities required to meet the objectives of Service Area Approach.\textsuperscript{54}
M. Lakshmi Narasaiah and Jey Raju (1992) in their book, *Rural Poverty and Anti Poverty Programme* found that there was a general dissatisfaction with the administration and utilization of subsidy given by the banks. There were widespread complaints that the subsidy amount was not reaching the beneficiary in full and a large portion of it was being misappropriated by government and bank officials and some middlemen who worked as touts.\(^{55}\)

Sankar and Nayak (1993) in their article, *Pattern of Credit Outstanding in Priority Sector - A Regional Analysis* analysed the priority sector advances of commercial banks. They had done the study at two different time points that is June 1985 and March 1990. They stated that there were wide imbalances in the distribution of credit in different regions. The Northern Region stood at the top, while northeastern region was at the bottom.\(^{56}\)

Sharada Nath *et al.* (1993) in their book, *Role of Elites and Citizens in Rural Development in India* suggested that both government and elites should try to create awareness and interests among the rural citizens before implementing the development programmes. Rural citizens should be properly educated to utilize the benefits of rural development.\(^{57}\)

Debendra Kumar Das (1994) in his book, *Dynamics of Rural Development* stated that rural development is not only an action plan but also a process aimed at improving the lot of the people living outside the urbanised area. Firsty to bring out the radical changes in productivity pattern of agriculture
and diversification of rural activities and consequent transfer of people to the secondary sector are more rewarding.\textsuperscript{58}

Bipin Kumar (1995) in a case study of Integrated Rural Development Programme in Bikram block of Patna District in Bihar, found that there are malpractices in identifying beneficiaries, sanction of loans and obtaining assets. Only 25 percent of beneficiaries received full amount for the assets, while 70 percent received the money partially.\textsuperscript{59}

Jegannath Mishra (1997) in his book, My Vision for India's Rural Development revealed that rural development largely consists in raising productivity of all the pursuits in which rural people are engaged - agricultural labour, washermen, transporters, carpenters and providers of rural services. More things are linked with the other and the absence of one creates bottlenecks.\textsuperscript{60}

B.K. Gopalakrishnan (1998) in an impact study on Recovery Camps observed that for the purpose of honouring the prompt repayers some household gift articles and merit certificates were given as a token of appreciation of the promptness, honesty and integrity. This assumes considerable value to both the borrowers and the bank. The entire event is covered by the press and can be published in local dailies. The villagers appreciate the bank's pro-active stand in conducting the recovery camps at their villages for collecting the money on the spot.\textsuperscript{61}
Bhagawati Prasad (1999) in a study on Nationalisation of Banks observed that it is necessary to revive people's confidence in the banking system and its quality. This can be done by the minimization of delays in various kinds of banking transactions, elimination of political interference and improvement of social commitment aspect of banks.\(^6\)2

K.K. Gaur (1999) in his book, Role of Agricultural Credit in the Prosperity of Scheduled Castes in Bulandshahr District of Uttar Pradesh observed that credit absorption capacity of the beneficiary was not taken into account while deciding the quantum of assistance before forwarding the application to the bank. This led to the misutilisation of funds and added to the burden of the beneficiary. It is, therefore, incumbent on the officials of the block to make careful assessment from this angle and suggest the amount to be lent in consultation with the bank manager.\(^6\)3

Ojha (1999) has conducted a multivariable international comparison of public sector banks of 16 different countries and indicated that Indian Banks were found to carry a large and disproportionate contingent staff as compared to their assets. In relation to International Standard, income from non-interest sources had been significantly low. These findings stressed the need for diversification of banking business.\(^6\)4

From the above review of literature it is found that most of the studies were related to credit plan of rural development and service area approach of lead banks. As far as the researcher's knowledge is concerned no study was
available on the role of credit planning in promoting rural development. This has prompted the researcher to take up the present study on the “Credit Planning in Kanyakumari District - An Analytical Study”.

1.9 CHAPTERISATION

The present study is divided into seven chapters.

The first chapter presents the introduction and review of literature. It explains a brief survey of credit plan, significance of credit plan, credit planning of India, evolution of credit plan, different rounds of credit plan, types of credit planning and review of literature of earlier studies.

The second chapter highlights the area profile and the methodology of the study such as significance of the problem, objectives of the study, methodology used for collection of data, the period of study tools of analysis and limitation of the study.

The third chapter focuses on the credit plans and their impacts on agriculture and its allied activities in Kanyakumari district. They include minor irrigation, land development, farm mechanisation, plantation and horticulture and crop loan of agriculture and dairy development, poultry farming, sheep-goat-pig rearing and fisheries in allied activities of agriculture.

The fourth chapter discusses the role of credit plans in promoting industry and service sector. It attempts to explain the resources available for the development of industries in the district, block wise allocation of credit to small-scale industries, village, handloom and tiny industries in Kanyakumari district. It
also describes the development of service sector such as transport, trade and small business, professional and self-employment, education and housing in the district.

The fifth chapter analyses the economic development of Kanyakumari district under the credit plans.

The sixth chapter highlights the opinion of sample beneficiaries about the performance of the credit plan of the financial institutions in Kanyakumari district. It is discussed on the basis of income of the beneficiaries, purpose for getting loans, term of loan and type of security insisted by the financial institutions, mode of repayment, loan amount applied and sanctioned and form of organisation.

The seventh chapter presents the summary, findings, conclusions and recommendations of the study.
References


16. Ibid., p. 44.


26. Ibid., pp. 780-781.


