

District Credit Planning

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Incentive packages for the development of backward areas and specific area development schemes have been discussed and carried out in various forms in Sri Lanka, though not with much success. There are again several such proposals and projects before the Government and in this context India's experience can prove useful. Several such integrated projects for the backward areas have been implemented successfully in India and the State Bank of India has also launched on a scheme that serves the basic needs of such projects. J. D. Mohile, the State Bank's Deputy Chief Officer, Economic & Statistics Research Department, in this article to the *Review* discusses the rationale and need for channelling resources of the banking system to various sectors and regions on the basis of well conceived plans; and the possibility of implementing such schemes if a sincere effort is made by all participating agencies.

For getting quick and optimum results from planned investments, the initial developmental efforts in a developing country are likely to be concentrated in areas having the necessary infrastructure base. Even, in India, a somewhat similar phenomenon has occurred.

Genesis of the Problem

During the British rule, economic development in India concentrated mainly in the presidency towns to which the rest of India served as an hinterland. Extreme inter and intra-regional disparity in economic growth was one of the many legacies of the British rule in India. Even after Independence, for the reason stated at the outset, the tendency continued for quite sometime. In the Chapter on 'Approach and Policy' in India's Fourth Five Year Plan, the planning Commission noted:

"In terms of regional development, there has been a natural tendency for new enterprises and investments to gravitate towards the already developed metropolitan areas because they are better endowed with economic and social infrastructure. Not enough has been done to restrain this process. While a certain measure of dispersal has been achieved, a much larger effort is necessary to bring about greater dispersal of industrial activity". The approach paper to the Fifth Five Year Plan also noted that in spite of the achievement of an overall growth in the country during the preceding four Five Year Plans and three Annual Plans, the benefits of this growth had not filtered down to large parts of the country. The paper, therefore, emphasised the urgent need for taking steps to remove these regional imbalances as soon as possible.

As we shall see in the following paragraphs, district credit planning is one such step, which can help canalise the developmental efforts to remove regional disparities.

It is common knowledge that credit is an important and necessary input in any developmental process. And because till recently developmental efforts were mainly concentrated in metropolitan and urban areas, institutional credit also mainly flowed to these areas. The Gadgil Study Group of the National Credit Council observed in 1967, that the spread of institutional credit was uneven in different parts of India, that the branch network and credit disbursal were concentrated in metropolitan and urban areas, while large pockets of the country had very sparse coverage in these respects. Apart from regional imbalances in credit disbursal, the Group also observed sectoral imbalances in the matter of credit extension. It noted that the credit needs of farmers, small scale industries and weaker sections of the society in general, did not receive adequate attention from commercial banks. It was to correct these regional and sectoral imbalances in credit disbursal that the concept of the Land Bank Scheme was evolved in December 1969. Under the Scheme, all the districts in the country except a few Metropolitan cities and Union territories were allotted to the 22 public sector banks and three private sector banks, which were called Lead Banks.

Strategy Evolved

Though under the Lead Bank Scheme the lead banks were asked to adopt an 'area approach', it

was not quite clear at that time how they were to go about it and it is through some experimentation that the lead banks arrived at the concept of district credit planning in July 1972. To start with, the lead banks had identified growth centres for opening bank offices and prepared district survey reports for their lead districts. The district survey reports were quite informative and contained a wealth of data about the physiographic, agro-climatic and socio-economic conditions of the districts.

However, the reports did not contain specific development schemes which could be straightaway financed by the commercial banks and other financial agencies. As such, some lead banks started undertaking depth studies of small compact areas such as community development blocks in their lead districts with a view to preparing action plans which could be immediately implemented by them. However, at the behest of the Regional Consultative Committee for the Central Area, they decided in July 1972 to prepare district credit plans instead of the action plans for the blocks.

The credit plans prepared by the lead banks contain development schemes in the various sectors of the economy, which can be financed by the commercial and co-operative banks and other financial agencies operating in the districts concerned. The schemes are evolved on the basis of study of the agro-climatic and physiographic conditions of the area, available natural resources and felt-needs of the local people. Development plans of the Government and other agencies are also taken into account while formulating the schemes. It is ensured that the schemes contained in the credit plans are technically feasible and economically viable. The credit plans, inter alia, give estimates of the physical programmes and financial and credit outlays in respect of the various schemes and projects that are included in them. Wherever possible, suitable locations of the projects and areas where the schemes can be profitably implemented are also indicated.

Rationale for the Strategy

The credit plans prepared by the lead banks are now in the process of implementation. They are yet to have any dent on the local

economies. But, in due course, they are likely to yield the following benefits:

- (i) The district credit plans include development schemes based on careful study of the natural resources and felt needs of the areas. The technical feasibility and economic viability of the schemes are duly established. The financing of these schemes is, therefore, likely to yield optimum results.
- (ii) While preparing the credit plan, it is ensured that the various schemes are integrated in nature, i.e., the backward and forward linkages of these schemes are considered and provided for. For example, if a large scale agricultural development programme is proposed, measures for providing fertilisers, seeds etc., on the one hand, and facilities for storage, marketing and transportation or produce on the other are also recommended.
- (iii) Schemes which can be implemented within the existing infrastructure and/or which require only marginal strengthening thereof are included in the credit plans. Marginal infrastructure and other facilities necessary for the purpose are estimated. As such, the Government can take suitable steps to ensure that problems do not arise at the implementation stage.
- (iv) It has been observed that backward districts in general do not have much inherent credit absorption capacity. Therefore, at present there is not much demand for credit from these districts. That is one of the reasons why the credit-deposit ratio in the backward regions is very low at present. However, if credit plans are prepared for backward districts, they will contain bankable schemes covering all the sectors of the economy, based on the study of natural resources and felt needs of the local people. The credit plans will thus help to induce credit absorption capacity in the backward districts and will help break the vicious circle of "no demand for credit,

consequently, no extension of credit, and therefore, no development and therefore, again no demand for credit".

- (v) If credit plans are prepared for all the districts in the country, they will help reduce the inter-district imbalances because the hitherto neglected and backward districts will also start progressing.
- (vi) The schemes included in the district credit plans are expected to benefit all the areas, rural as well as urban, of the district. Locations of various schemes and projects included in the credit plans are carefully selected so as to yield maximum returns, as also to benefit as large an area as possible. Therefore, credit plans will help reduce disparities between various areas within the district, i.e., intra-district disparities. Thus, the preparation of credit plans is useful even from the point of view of developed districts.
- (vii) As the schemes included in credit plans cover all the sectors of the economy, district credit plans will help channel credit to the various sectors according to their need and thus reduce sectoral disparities.
- (viii) Last, though not the least, the investment directed to increase the credit absorption capacity of the backward regions will have the effect of drawing into the process of production the hitherto unexploited and under-exploited productive resources of the region. This will obviously go a long way in accelerating the rate of growth in the economy of the country as a whole.

It will be seen from the above discussion that it would be in the larger interest of the country if the resources of the banking system are channelled to the various sectors and regions on the basis of well-conceived district credit plans. The preparation of the credit plans no doubt presents some methodological and other problems. There are also a number of problems in implementing these plans but they can be overcome if sincere efforts are made by all the participating agencies.