CREDIT PLANNING IN THE CONTEXT OF DECENTRALISED PLANNING IN KERALA

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I hereby affirm that the work for the dissertation titled "**Credit Planning in the Context of Decentralised Planning in Kerala**" being submitted as part of the requirements of the M. Phil Programme in Applied Economics of the Jawaharlal Nehru University, was carried out entirely by myself and has not formed part of any other Programme and not submitted to any other institution/ University for the award of any other Degree or Programme of Study.

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Certified that this study is the bona fide work of Mr. V R Prabhakaran Nair, carried out under our supervision at the Centre for Development Studies.

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To

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Chapter 1

INTRODUCTION

Mobilisation and deployment of available economic resources according to the priorities laid down in the development plans is vital for ensuring rapid and equitable development. Commercial bank credit is one such scarce economic resource. Therefore its use has to be properly planned in order to maximise its role in generating economic development and to achieve other social and economic objectives.

One of the important reasons for the need for credit planning is the scarcity of credit available for different activities in the economy. The total volume of credit available in the country is much short of its demand. In a market economy the allocation of all scarce resources among competing uses is effected through the pricing mechanism. In the case of credit the pricing mechanism operates through the changes in rate of interest. Theoretically, if there is an excess demand for credit in relation to it's availability rate of interest will increase in the market which in turn will discourage the borrowers and reduce the demand for credit to the level of it's supply. On the other hand, a relatively lower demand for credit in relation to supply will reduce the interest rate and the consequent increase in the borrowing by the marginal borrowers will push up the demand for credit equal to supply. Thus according to the pricing process under the capitalist system the excess supply or demand will be eliminated and equilibrium achieved in the credit market.

However, the distribution of credit through the above pricing process need not be optimal for the society as a whole. Market may direct credit solely to sectors like large-scale industry and whole sale business, which can offer a high interest rate and type of securities required by the banks. The consequence of this will be the deprivation of the priority sectors in the economy like agriculture and small-scale industry that can expand employment opportunities and at the same time accelerate economic growth. Similarly artisans, dalits and other weaker sections that are important for the point of view of social justice may be left out of the credit supply. Backward regions that are important from the equitable growth may not also received attention from the credit market.

Credit Planning

Therefore, credit planning as a part of resources planning assumes considerable importance in an economy where the economic activities are planned with the objective of attaining balanced development of different sectors and sections of society. The main objective of planning the quantum and direction of credit is to guide production and investment activity into channels as laid down in the development plans. Thus, the concept of allocating monetary resources on a priority basis, especially credit, has been accepted in India from the introduction of the first five-year plan itself. The first plan document accorded an active and direct role for banking, "in creating or helping to create the machinery needed for financing development activities all over the country, and ...in ensuring that the finance available flows in the directions intended" (Government of India: 1951).

Prior to nationalisation of major commercial banks in India in July 1969, no attempts were made to evolve meaningful credit planning. The nationalisation gave an added impetus to the process of reallocation of financial resources at the disposal of banks to serve the socio economic objectives of planning. Accordingly, District Credit Planning under Lead Bank Scheme (LBS) in 1969 and Service Area Approach (SAA) in 1989 were introduced to enable the individual banks to formulate credit plans in their own service area. The aim of this approach was to improve the bank credit in the rural sector with the objectives of increasing production, productivity, and income level. One of the features of this approach is the emphasis of credit planning by the banks at the grass root level and their direct involvement in the development activities of the assigned service area. Credit planning has to be undertaken not merely at the apex level or even intermediate levels like the regional offices of the credit institutions, but more importantly at the grass root level as well (Reserve Bank of India: 1989:hereafter RBI).

We shall attempt to document the evolution of the credit planning process and its major instruments since independence in the chapter that follows (Chapter 2). After describing the modus operandi of District Credit Plan (DCP), Potential Linked Credit Plan (PLCP) and the Service Area Approach (SAA), we shall undertake a critical review of the effectiveness of credit planning in India by reviewing the major studies on the topic. In the next chapter an empirical examination of the credit planning process in Thiruvananthapuram district is presented as a case study. This case study, we hope, will help us to highlight the strength and weaknesses of the existing credit planning system.

Decentralised Planning

Preparation of credit plan implicitly involves preparation of development plans. A credit plan presupposes the existence of a development plan. The linkage between the development plan and the credit plan is a theme that we shall be elaborating upon while reviewing the experience of credit planning in India. The literature would point out that the experience has not been satisfactory.

The problems of integrating the credit plan and the development plan would become even more acute when the planning process is decentralised. Under decentralised planning system, the plans are prepared simultaneously at different levels of governments. There has to be a parallel decentralisation of credit planning also. More importantly the procedures for both development planning and credit planning would have to be inter linked and integrated to the extent possible. The present system of credit planning which has evolved in an environment of centralised planning would have to be seriously modified if it is to be made effective in the context of decentralised planning.

As part of the Ninth Five-Year Plan, Government of Kerala has initiated a novel grass root level planning process known as "People's Planning Campaign". As much as 35-40 per cent of the annual plans have been delegated to the local self-governments at different levels for formulating their own area plans. The campaign is a mass movement that seeks to empower panchayats and municipal bodies to draw up plan programmes and schemes within their respective areas of responsibility. Accordingly the rural development plans at different levels namely the district, block and panchayats would be formulated by the people based on their felt needs and priorities at each of these levels. In such a situation, unless there is complete co-ordination and integration between development plans at the Panchayat level and credit plans, the development plans would effectively become conditional to credit plans, rather than the other way round.

Preparing credit plans in isolation and without proper integration with the development plans formulated at the grass root level could be counter productive. It is absolutely necessary, therefore, to specify the respective roles and collaborative arrangements before preparing credit plans under the decentralised planning programme in Kerala. A District Credit Plan (DCP) should emerge from the District Development Plan (DDP), a Block Credit Plan (BCP) from the Block Development Plan and a Village Credit Plan (VCP) from Village Development Plan (VDP). Credit planning will turn out to be ineffective unless it is not linked backward with a development plan in physical terms and it is not sufficient to have forward linkages through the credit disbursing agencies, with the credit using agents such as farmers, village professionals, artisans, rural industrialists and infrastructure builders, both Governmental and Private (RBI: 1989).

The ongoing decentralised planning process in Kerala has been given special emphasis to the preparation of viable projects that would meet the criteria laid down by financial institutions. Further, the transparent and participatory process of project formulation and implementation entails sufficient peer group pressure on the borrowers for compliance to the repayment commitment. The decentralised planning presents a unique opportunity for the banks to enter into a partnership with local level planners to accelerate economic growth in the state without at all compromising their managerial functions. Thus it is most feasible and appropriate to begin credit planning at the grass root level. In other words it is of utmost importance that the credit plans of the banks are integrated with the plans of the local bodies, an objective, which can be realistically achieved if the bank personnel are also directly involved in the planning process (Isaac: 1999) The need for borrowed funds from different sources for understanding development projects under decentralised planning arises from the need for mobilising additional local resources besides the 35 - 40 percent of the sate assistance transferred to local bodies in terms of Grant-in-aid. Thus the borrowed funds from financial institutions, for the implementation of various farm and non-farm activities, becomes crucial under decentralised planning.

A major part of the local level plans is to be financed by financial institutions like co-operative and commercial banks. It is important that the formulated projects under the decentralised planning programme should be linked with credit from financial institutions. It is also necessary that officials implementing the programme, at all levels are closely associated with the formulation of credit plans at the local level.

Decentralised planning envisages rural development by improving the living standards of low income population residing in the rural areas and keeping the process of growth sustainable. Credit is a powerful instrument in bringing about rural development and agricultural growth. This is all the more true for the poorer sections in the economy as their saving capacity is constrained by low level of income. They are living in a vicious circle of poverty with low income, low savings, low capital, low productivity and consequently low income.

A systematic and realistic approach to the a credit planning process is absolutely essential in ensuring access to credit in the rural areas for increasing agricultural production and alleviating poverty. Thus increasing the efficiency of rural credit delivery system has been an important area in the decentralised planning process at the local level in Kerala. Since various programmes are being implemented under the current decentralised planning process in Kerala, the demand for agricultural credit and non-agricultural credit is expected to increase.

The second part of our study specifically looks into the experience of first two years of decentralised planning in Kerala with regards to the success in ensuring sufficient credit linkage for the local plans. There are three questions that we are seeking to answer.

- What were the credit expectations of the local planners?
- To what extent they are realised?
- If not, what were the reasons for the failures for the credit planning mechanism in catering to the requirements of local development plans?

The decentralisation of credit planning through village credit planning system could be a better and well-orchestrated option for the effective grass root level implementation of development projects under decentralised planning in Kerala. Therefore, in the present changing scenario in Kerala, it seems both relevant and pertinent to study the response of the rural credit delivery system and credit planning to the changes of decentralisation. In other words, it becomes necessary to understand the role of financial institutions in financing the real sector under decentralised planning. The present study is an effort in this direction. More clearly, this study attempts to examine the role of credit planning in financing the decentralisation process in Kerala. So that, if needed, corrective measures could be taken in future.

Objectives of the Study

The thesis addresses the question of credit disbursement and credit planning system in the context of decentralised planning in Kerala. It seeks to highlight the contradiction between formulation of service area credit plans by banks under the district credit planning system at the village level and the developmental plans formulated by local bodies under the decentralised planning. The present system of credit planning under the service area approach is not integrated with development plans formulated at the panchayat level. An approach, which fully integrates the credit plans of the banks with the development plans under the decentralised planning, is absolutely necessary for the successful implementation of the projects at the local level. The objectives of the present study are the following.

- To document the existing system of credit planning under the Service Area Approach,
- To analyse the decentralised planning process in Kerala and the credit linkages for the local plans in the first two years 1997-98 and 1998-99.
- To discuss the problem of lack of integration between the credit planning and the current decentralised planning programme in Kerala.
- To suggest measures for integrating the credit planning of banks and development plans formulated as part of the decentralised planning process in Kerala.

Methodology and Data Source

The study is based on both primary and secondary data sources. A primary survey was conducted by looking at 83 projects covering 12 panchayats in Thiruvananthapuram district. In order to select the sample of panchayats for the present study, we had selected 6 blocks from the total 12 blocks in the district based on the per capita credit disbursed in each of these blocks. 2 blocks each from high, medium and low per capita credit categories were chosen for the study. Accordingly 6 blocks namely Varkala, Chirayinkil, Kilimanoor, Nedumangadu, Trivandrum-rural and Nemom were selected. From each of these blocks 2 panchayats were selected randomly. From these panchayats all projects which expected credit from financial institutions in the first two years under decentralised planning, i.e., 1997-98 and 1998-99 were examined. The total number of projects, which expected credit in the first two years, were found to be 83.

A survey was also conducted among the financial institutions. For this the respective financial institutions from which the sample panchayats expected credit for projects under decentralised planning was identified. Accordingly 10 commercial banks and 4 co-operative banks were included in the survey. The database of the State Planning Board, which contained project wise financing pattern of all the local bodies in Kerala for the years 1997-98 and 1998-99, was made available for our study. The variables characterising the socio economic features of gram panchayats for the regression analysis of determinants of per capita expected credit in the local plans was prepared by Shaheena (2000). Secondary data available in Annual Credit Plan Documents by Lead Bank for Thiruvananthapuram district (Indian Overseas Bank) and Potential Linked Credit Plans for Thiruvananthapuram district by National Bank for Agriculture and Rural Development (NABARD) are also used for the study.

Chapter Scheme

The rest of the study is organised as follows:

Chapter 2 critically analyses the credit plans under District Credit Planning. Emphasis is also given to Service Area Approach. In Chapter 3 the decentralised planning process and the local plans 1997-98 and1998-99 with their credit linkages are analysed under 3 sections. Section I deals with the decentralised planning process. Section II analyses the pattern of financing of local plans at the state level. Section III discusses the Potential Linked Credit Plan and credit requirements of local plans in the Thiruvananthapuram District. Chapter 4 deals with the primary survey conducted to study the factors responsible for sharp divergence between credit expectation and realisation. Final Chapter (Chapter 5) gives the conclusions.

Chapter 2

PREPARATION OF CREDIT PLANS: A CRITIQUE

The present chapter provides an overview of the Credit Planning process in India. Our focus is on the methodology of preparation of Service Area Credit Plans (SACP). The methodology of preparing District Credit Plan (DCP) by the Lead Bank and Potential Linked Credit Plans (PLCP) by NABARD is also examined. Service area credit plans are prepared based on the background papers prepared by the Lead Bank on the basis of PLCPs. The critical evaluation of the credit plan methodology at various levels is undertaken after describing the evolution of credit planning in the country.

Section I

Evolution of Credit Planning in India

The financial system plays as a catalytic role in the development process. The importance of Credit Planning in a growing economy may be summarised as follows. (RBI, 1989)

1. Foreseeing and forecasting credit demand,
2. Mobilisation of savings;
3. Redistribution of funds across sectors and regions;
4. Formulation of schemes for effective lending and successful recovery of loans.

Therefore from the First Five-Year Plan itself the credit planning was considered as an integral part of the growth process and a mechanism for achieving balanced growth of all sectors of the economy. However, the recognition of its considerable importance, credit planning did not receive adequate attention until the late sixties. Until then the credit decisions were mainly based on the discussions made with major users of credit in the private and public sectors by commercial banks in order to assess demand.

Credit policy was a part of monetary policy adopted by the Reserve Bank of India. As a plank of monetary policy the credit planning was a multidimensional and comprehensive exercise that involved the following.

1. Monetary Budgeting
2. Budgeting of financial savings to be mobilised by various financial intermediaries in general and commercial banks in particular.
3. Macro level credit allocation among sectors, industries and regions.
4. The evolving of instruments and mechanisms to get the macro projections translated into macro level decision making.

In each of these subjects there are a host of conceptual, estimational and analytical issues. Monetary budgets, with a plan for credit flow are prepared by the central banking authority as a part of the over - all resources budget exercise to synchronise with the formulation of the Five Year Plans. These are revised over the period to take into account changes in economic conditions during the period.

A major weakness of credit plan has been the absence of instruments and mechanisms at the micro level for realising national credit targets, particularly with respect to priority sector and lending to the weaker sections. At the beginning of planned development process, the rural credit needs were mainly catered by non-institutional sources such as professional moneylenders, landlords and traders. The institutional credit was largely provided by the co-operatives, co-operative banks for short-term credit and land mortgage banks for long term credit. The presence of commercial banks was minimal in the rural credit scenario. It was only with social control of banks and nationalisation of the major banks in the late 1960s that they were drawn into rural banking in a systematic way (Narayana, 1992.).

The RBI introduced the Credit Authorisation Scheme in 1965 with a view to impose financial discipline on the large borrowers. Credit Authorisation Scheme requires prior authorisation by the Reserve Bank of loans for amounts more than of Rs.2 crores. The scrutiny of large accounts ensures that large borrowers do not pre-empt credit and that their credit is related to production requirements. Towards the end of 1967, social control was imposed on the banks. The National Credit Council (NCC) was set up in February 1968 as a part of the social control scheme. It made an attempt at credit planning (credit allocation) but the efforts did not go beyond fixing quantitative targets for lending to some of the then neglected but economically significant sectors such as agriculture, small industry and exports. Organisational and administrative measures were initiated in pursuance of credit planning approach aimed at matching credit flows with the requirements of production and priorities of various sectors and credit budgets on an annual and quarterly basis. However, upto 1969 credit planning was macro in nature where the RBI used to provide broad guidelines.

The nationalisation of 14 commercial banks in 1969 revolutionised the whole concept of commercial banking. Under the "new style" of banking, with its emphasis on mass banking, and reduction of regional and sectoral imbalances in the availability of banking facilities in general, and bank credit in particular, credit planning assumed great significance. A new public limited company known as the Credit Guarantee Corporation of India Limited was set up and it formulated definite schemes of giving guarantee, since the bank lending to small scale industries and agriculture involves an element of risks and needs cover of guarantee.

Section II

Lead Bank Scheme And District Credit Plan

In 1967, the Study Group under Prof. D.R. Gadgil recommended the adoption of area approach to banking development under which commercial banks would be given charge of specific districts. In their allotted district the banks are supposed to act as pace setters for development by providing the integrated banking facilities. In August 1969, the Reserve Bank of India appointed a committee of bankers under the chairmanship of F.K.F.Nariman that made specific recommendations for setting up lead banks for each district. As a result of these two initiatives, the Lead Bank Scheme was introduced in December 1969.

The basic objective of this attempt was to ensure that not only institutional credit was adequately available, but also that it should reach all regions, sectors and sections in due proportions. In other words, the services of the banking business should be enjoyed and shared by all. The lead bank was supposed to survey the growth potential of the district and extend credit facilities after locating viable projects and mobilising deposits out of surplus income groups in the economy. The main functions assigned to the lead banks are the following (Singh, 1987).

1. The lead bank is to undertake impressionistic socio-economic surveys of the district to assess the development potential particularly with reference to agriculture and small-scale industry. The major constraints on the development of the district may also be brought out and appropriate agencies identified for taking up the follow up remedial action.
2. The lead bank is to identify suitable areas for branch expansion by identifying growth centres.
3. The lead bank is to make an assessment of the credit requirement of the district and locate credit gaps in different activities. It is to prepare district credit plans to meet the credit requirements of the district by co-ordinating the activities of other financial institutions and development plans of the state governments.
4. The lead bank may formulate suitable and viable schemes and projects, which are growth, oriented.
5. Finally, the lead bank may suggest experiments with financial schemes, which can help in mobilising deposits and promoting investment among the local people.

In other words, the role of the Lead Bank Scheme is multi-dimensional. First, it acts as a commercial credit institution for mobilising deposits and disbursing credit. Secondly, it is a planning agency for identifying the needs and problems and to resolve these problems by providing adequate targeted credit resources. Finally, the Lead Bank acts as a development bank for working as a catalytic agent for the development of the backward and under banked areas (RBI, 1987).

Instead of acting as a monopoly power in the district, its role is to act as a consortium leader for invoking co - operation from other credit agencies functioning in the district. The success of a Lead Bank in any particular district is to be judged not from the work done not merely by its own offices in the area, but from the total improvement of the district economy that it is able to effect through the medium of banking sector.

Implementation of the Lead Bank Scheme

The first phase of the Lead Bank Scheme focused on the expansion of branches. In order to expand the banking services, an impressionistic survey of the district for identifying the potential for opening new branches of commercial banks was made. After the survey of the respective areas, phased programmes were drawn up for the expansion of branches. For this purpose, direction was given to the Lead banks to act in collaboration with all other banks operating in the each district, both in private and public sectors (RBI, 1987).

In the second phase of the Lead Bank Scheme, the lead banks prepared their respective district credit plans. The idea for formulation of these plans was established by the Reserve Bank, in pursuance of the recommendations of the study Groups on the working of the Lead Bank Scheme in Gujarat and Maharashtra (1975). It made recommendations for activising District Level Credit Committee (DLCC) as an effective forum for co- ordination between banks and government agencies, formulation of bankable schemes with the supporting role of various agencies and monitoring. (RBI, 1987)

These plans were intended to give a concrete shape to the concept of Lead Bank Scheme and area approach to development by directing the banks in the district to infuse targeted flow of credit to various hitherto neglected sectors of district's economy in a time bound manner (Singh, 1987). For this purpose the lead banks have to identify the bankable schemes in the districts and cover all economically viable activities. They should seek co - operation from other financing agencies.

Different Rounds of District Credit Plans (DCP)

The first round of preparation of district credit plan (1978-79) was not uniform with respect to coverage, methodology or period. Though considerable efforts were put in by the lead banks in the preparation of these District Credit Plans (DCP), the plans did not serve the purpose fully intended (Singh, 1987). There had been no uniformity in regard to the period of the district credit plans. The planning period had generally varied between three and five years, and in certain cases, plans had been prepared only for one year (Singh, 1987). The reference year also varied between banks with some following calendar year while others adopting co - operative year (July-June) or financial year (April-March). The DCPs were not in accordance with the development plans of the districts and agricultural and allied activities did not receive due emphasis. The Lead Banks followed different methodologies in preparation of credit plans, which were not necessarily acceptable to the other participating banks. So in 1979, the RBI issued new guidelines for the preparation of DCPs.

The RBI while advising the lead banks to terminate the first round of DCPs at the end of 1979, also recommended the framing of the second round of DCPs to synchronise with the Sixth Five Year Plan (1980-85) together with Annual Action Plans from the commencement of each year. The RBI stressed that due care should be taken by the lead banks to align the credit plan with the credit based development schemes, on going and potential, of Government and all other development agencies operating in the district (RBI, 1987).

Since 1980, the district credit plans are prepared on a uniform pattern as per the RBI guidelines and are split up in to annual action plan and block or branch wise plans. The credit planning exercise was made comprehensive one, with coverage of all priority sectors and all credit agencies, such as commercial banks, co - operative banks or state financial corporations. Block level credit planning with the emphasis block as a unit of planning was also emphasised. It was envisaged in the new guidelines that credit outlay should be presented in the DCP on a block wise basis and not merely sector wise and scheme wise (RBI, 1989).

Guidelines were once again revised in February 1982. The RBI expected the new round of DCP (1983-85) to lay more stress on promoting optimum use of land, labour and financial resources for raising productivity and production. The banks were asked to extend credit support to the beneficiaries identified under the IRDP, which was extended to all blocks in the country with effect from October 1980. The RBI had desired that the banks should have to work closely with the District Rural Development Agencies (DRDAs) and with the District Industries Centres (DICs) to help promote rural industries on a viable basis and to identify the activities which could be supported in the tertiary sectors.A fourth round guidelines were issued in 1986. As at the end of December 1986, the Lead Bank Scheme covered 438 districts in the country (RBI, 1989).

Priority Sector Lending (PSL)

An innovative measure in the field of commercial banking has been the administrative intervention of laying down of targets and sub targets in financing the preferred sectors of the economy, called `priority sectors. The principal objectives of the new scheme were to achieve a wider spread of bank credit and direct a larger volume of credit flow to hitherto neglected sectors. Following are currently the priority sectors.

- Agriculture (minor irrigation, plantation and horticulture, storage facilities, floriculture, farm mechanisation, dairy, goat rearing, piggory, poultry, mushroom, hatcheries and milk chilling plants etc.)
- Small Scale Industries
- Services sector (transport operations, retail trade, professionals and self-employed, small business, educational loan, housing loan, consumption loan)
- Loans to self-help groups

The public sector banks in India were advised in 1977 to enlarge the flow of credit to the priority sectors, so as to raise their shares in the aggregate credit to 33.3 per cent by end March 1979. Subsequently in 1980 this ratio has been raised to 40 per cent, to be achieved over a period of five years (by March 1985). Within the priority sector there are numerous government subsidised schemes like Integrated Rural Development Programme (IRDP), the Massive Agricultural Production Programme (MAPP), Dryland Development Projects (DDP), the Self Employment Programme for the Urban Poor (SEPUP), and the Differential Interest Rate Scheme (DIR). Lending to specific target groups is the most important feature of these schemes. The target group may be defined by ownership of assets (principally land), by income level or membership of a particular social group (most commonly scheduled castes and tribes). By specifying these target groups, institutional finance reaches people whom it would not have reached in the normal course. The result has been a gradual shift from a security - based lending approach to a purpose - specified approach (Narayana, 1992).

In 1980, RBI (1982) issued the following directives to the priority lending.

1. Priority sector advances should constitute 40 per cent of aggregate bank credit.
2. Out of priority sector advances, at least 40 per cent should be provided to agriculture.
3. Direct advances to the weaker sections in agriculture and allied activities in rural areas should form at least 50 per cent of the total lending to agriculture.

4. Bank credit to rural artisans, village craftsmen and cottage industries should at least be 12.5 per cent of the total advance to small-scale industries.

However, the priority sector lending did not lead to any change in the district credit planning, but for some changes in the sectoral allocation of funds. The target, which was stipulated as 40 percent, was reached only by 1987. It has been recognised that the distribution of priority - sector advances of scheduled commercial banks has not been equitable among the different sections within the respective sectors.

Methodology of District Credit Planning

District Credit Plan is a development plan consisting of technically feasible and commercially viable schemes, which can be taken up for financing by financial institutions. It indicates the scope of development in the specified areas and the lines on which credit could be deployed by the concerned agencies in a given time. It is in consonance with the plan programmes of the State Government and development agencies, viz., District Rural Developing Agency (DRDA)[1], District Industries Centre etc., and, importantly, investment requirements of the private entrepreneurs in the priority sectors.

When we look at the district credit plan critically it is necessary to understand that in India a development plan means a projection, no matter whether it is for 1,3 or 5 years. It consists of the projection of different activities that could be achieved at the end of the period concerned in the projection. It also includes the projection of the corresponding level of investment required to support and generate the targeted level of activities in the district plan.

One important difference between the national plan or the state plan and the DCP is that, largely, the former are concerned with the planning of output and investment by the central, state governments and public sector enterprises, while, District Credit Plan would also have to take into account targeting of output and investment both for public and private activities. Targeting

[1] In each state and union territory, bodies known as District Rural Development Agencies, which are societies registered under the Societies Registration Act, have been set up to implement the programme. It is the DRDA, which identifies the beneficiaries, draws up income generating projects for them, and brings them in to contact with banks. The DRDA also ensures backward linkages (inputs, technical advises, etc.) and forward linkages (processing facility, marketing arrangement, etc) in respect of the proposed economic activities.

of private sector activities will be based on an assessment of the endowments in the district and will include changes in land utilisation, cropping pattern, irrigation, rural industrialisation, electrification, infrastructural developments, technology improvements as well as institutional developments (RBI, 1989).

Taking into consideration the factors, based on existing levels of activity and endowment potential, production targets will be estimated. These production targets become the first part of a district development plan. Then with the knowledge of additional investment required in each of the activity per unit of additional output, the production targets will be converted into investment targets or financial targets. This is the additional capital required for each activity in order to generate the required additional output. Mostly state level estimates of capital output ratios are employed for estimating additional investment required. The next step is to estimate the credit linkage required to finance the investments in different sectors sub sectors. After the district credit plan is available in terms of credit targets for investment and the production activity in different sub sectors, the district credit plan will be split by the District Credit Planning Committee in to separate sub totals for each blocks (RBI, 1989).

In order to operationalise the District Credit Plan, Annual Action Plans are prepared. It is prapared for each calendar year. It enables the District Credit Committee to take regular review of the progress in implementation of the plan targets and ensure realistic implementation of the plan commitments with the annual business budgets of the credit agencies (RBI, 1989).

A major weakness of the DCPs has been related to the database. During the 80's and the early 90's little reliable data was available about production, marketing, equipment, income estimates, transportation, village and cottage industries etc. at the grass root level. The situation has significantly changed with the introduction of decentralised development planning (RBI, 1989). But even after this the credit planning of the banks is based on the guidelines prepared under the district credit planning data. Thus the individual service area credit plans are not based on the development plans at the panchayat level.

The district credit plans still do not appear to be broken down by categories of sufficient details. They are an aggregation of credit plans and projections based on the bank's perceptions of their borrower's credit needs. There should be better targeting by purpose and monitoring. The district credit plans are not being dovetailed with district development plans. The district credit plans were formulated on the basis of broad estimates received from different developmental agencies and are thus not prepared on the basis of development plans as such (RBI, 1989).

Preparation of credit plans without economic plan at the block level and the panchayat levels amounts to putting the cart before the horse. It is necessary to bring about coordination with government officials at the lower levels.

Section III

The Potential Linked Credit Plan (PLCP)

The committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD), headed by Sri. B.Sivaraman, recommended the establishment of a National Bank for Agriculture and Rural Development (NABARD) under the control of the RBI (NABARD, 1982). Thus NABARD came in to existence from July 12,1982 as an apex bank for the rural credit. Initially, implementation of the Integrated Rural Development Programme (IRDP) in the country was the main focus of attention of NABARD. Later it took over the functions of many agencies like Agricultural Credit Department (ACD), Rural Planning and Credit Cell (RPCC) of RBI and Agricultural Refinance and Development Corporation (ARDC). By 1983 NABARD also established the new credit planning system called "Potential Linked Credit Plan" (PLCP).

A Potential Linked Credit Plan is a comprehensive documentation of potentials for rural economic activities, both in physical and financial terms. It is also an assessment of the gaps in infrastructural support, which need to be filled in, in order to fully exploit the realisable potentials. In order to ensure balanced development of the district, the regional resource base available and needed infrastructure, marketing support and other linkages are also taken into consideration.

These plans are based on analysis of field data as well as secondary information available with different agencies including development departments of the state government. The national and state priorities and special programmes and macro policy initiatives are also taken in to account. The physical potentials arrived at are then translated in to credit projections after taking in to account, the bankability and financial viability of the investments. These are further disaggregated in to block level estimates. The Potential Linked credit plan estimates are then used for the preparation of back ground paper to help branch managers in the preparation of their own Service Area Plans (SAPs). The PLCP is a total plan document, giving all the relevant information relating to economic activities in the district so as to assist different rural development institutions by providing valid basis to search for investment alternatives. The PLCP has contributed to perceptible improvements in rural credit planning.

Methodology of Preparation of PLCP

Assessment of potentials in quantifiable terms for various sectors is a pre requisite for a potential linked credit plan. The potential is to be estimated taking into account the following (Juneja, 1989):

1. The present status of the sector in the economy
2. Demand for the existing activities
3. Desirability of promoting or encouraging the activity
4. Inter-relation of various sectors
5. Willingness of the local population to undertake the activity in the given social and religious background.
6. Forward and backward linkages
7. Internal and external constraints

The data or information regarding existing infrastructural facilities, the future requirements of particular sectors, availability of inputs or outputs, the necessary marketing support for the end products has to be identified and quantified. In addition to this, the data relating to the spread of banks and their branch network have to be collected in order to assess the capacity to deliver the credit effectively. Also, the availability of refinance and its disbursement on the basis of the eligibility criteria for each bank operating in the area has also to be quantified. On the basis of the information collected and the discussions with the departments, sectors which require a thrust from the point of view of equity and justice have to be identified and taken care of while making financial outlay.

Following are the steps involved in the preparation of PLCPs (Juneja, 1989).

1. The present status and estimation of long term potentials: The statement on the status and potential of different development sectors has to be given, if possible, by subsectors. For eg: in the case of minor irrigation, the sub sectors would be dugwell, borewells, lift irrigation, drip irrigation, sprinklers, well irrigation, pumpsets etc.

2. Annual phasing of potentials: On the basis of the present status, the total potential for each of the sectors that can be exploited has to be quantified and projected on an annual basis.

3. Identification and quantification of infrastructure and marketing facilities: The annual projections arrived by the annual phasing of potentials may not take into account the actual field conditions and may not be achievable. Thus it is necessary to scale them down wherever necessary on the basis of field conditions. For this purpose the provision made by the state government for improving the infrastructure and the other supporting facilities needed for the relevant sector, the adequacy of marketing and other support systems and such other bottlenecks that may stand in the way of full realisation of the potential have to be identified.

4. Revised annual phasing: On the basis of actual field conditions and interactions with local line departments and all other connected agencies including banks, the annual projections have to be suitably revised giving realistic or achievable projections.

5. Revision on the basis of past performance: Having arrived at a reasonable phasing which would be achieved under the given conditions a review of actual progress made providing finance or refinance over 3 to 5 years is made. On the basis of the past trend, the projections as spelt out earlier may be appropriately revised. But care has to be exercised to ensure that past trends do not totally govern the future progress, they may help as indicators only, in projecting the targets for the initial one or two years.

6. Performance Budget for Banks: After the projections have been reviewed in terms of bank's performance in the past, a general performance budget for all sectors for the banks is worked out. In making the performance budget the views of the bank branches and allocations under the service area approach would also be considered.

7. Refinance absorption capacity of banks: In order to prepare performance budget for each bank an estimate of the total refinance absorption capacity in the district has to be made. While estimating the refinance component for the immediate next year the probable recoveries of financial institutions, weather situation, the drought conditions and other natural calamities have to be taken in to account.

8. Eligibility Constraints and adjustments: If the refinance allocation do not match the actual outlay worked out bank wise without reference to eligibility constraints, the latter will have to be revised by prioritisation of various sectors in terms of their relative importance. The bank loan component and the refinance component are duly incorporated for each bank.

9. Potential linked Credit Plan (PLCP) for District: Finally, a potential linked credit plan for the specified period for the district will be prepared. This will give both physical and financial outlays i.e., bank credit and National Bank refinance for each year, each sector and each bank, with service area concept. This will help in allocation and earmarking of year wise programmes to each of their branches. The plan so worked out will be advised to the various banks for formulation of various schemes.

Separate Production Credit Projection under Crop Loans

A potential linked credit plan for the district will not be complete in the absence of estimation and projection of production credit needs of the area. This will be projected for the plan period for the entire district, phased annually and allocated to each of the banking agencies namely, co-operatives, regional rural banks, commercial banks etc. In order to estimate the production credit requirements under crop loans it is necessary to assume the total financial requirement to grow different crops in the district (NABARD, 2000).

It is possible that the area under various crops may change during different seasons and also according to the availability of irrigation. Rainfall is a major deciding factor on the types of crops and their extent of coverage. For estimating the production credit support the present status of irrigation, future growth of irrigation under the major and minor irrigation schemes, the extent of crops grown under irrigated and rainfed conditions, cropping intensity etc. are to be considered.

Section IV

Service Area Approach (SAA)

The Service area approach was the outcome of the feeling that the target approach under the district credit planning which was needed in the initial stages to push banks in to priority sectors had inherent deficiencies in it. The essence of the new approach lies in assigning specific areas, say, 10-15 villages (sometimes wards of villages) to each bank branch The area approach is expected to facilitate intensive deployment of credit for development purposes, keeping in view the local needs and problems. The service area approach aimed at solving the problems associated with the identification of genuine borrowers and supervision of the end use of credit. It improves the level of co-ordination and integration between banks and the government officials formulating the development plans at the grass root level.

The SAA thus envisages credit planning from the village upwards which should be compatible with contemplated devolution of development responsibilities to local bodies and the new stress on area planning at district and block levels. It emphasises the developmental role of branch managers and seeks to build considerable challenge in their jobs. (Malhotra: 1990) It is a first step in the direction of planning from below; village to block to district and then to state levels (Ojha: 1988.p.643).

Apart from an assessment of the impact of bank credit on production, productivity and income levels, it would also contribute to a harmonisation in the efforts of banks in the task of rural development through credit and avoid diffusion of efforts over wide areas. The Service Area Approach envisages that rural branches have a developmental role and are not expected to function as mere purveyors of credit. Institutional credit agencies would have their own perception of development potential and constraints of areas under their jurisdiction (Ojha: 1989:p.354). The most important objectives of Service Area Approach are to improve the quality of lending and ensure its linkage to production and productivity.

The preparation of service area plan involves five stages (Ojha, 1988):

1. Identification and allocation of service areas for the branches of commercial banks, regional rural banks, and co-operative banks located at rural and semi urban branches, is the first task. The identification of villages is done on the basis of proximity, contiguity and cluster approach[2].
2. Assessment of the potentials of villages by conducting a survey and preparing a profile of the economic activities and needs of the people of the service area is the next step. For this purpose standardised village survey format to collect required data are used.
3. Preparation of credit plans keeping in mind the potential of bankable schemes and needs of the people of service area is the third step.
4. Implementation of credit plans also constitutes a part of the service area approach. The timely disbursement of credit matching with non - credit inputs under the development plans is essential for the effective implementation of credit plans. For this a new committee known as Block Level Banker's Committee (BLBC) is constituted to ensure co - ordination between financial institutions on one the hand and development plans prepared by development agencies on the other hand. The Chairman of the committee is the lead District Manager and it is convened by the Branch Manager of the designated Bank Branch in the Block concerned, once in three months.
5. The BLBC is to co-ordinate and monitor the work of all branches within a block. To monitor the performance of bank branches under the credit plans, and recovery position, computerised Lead Bank Returns (LBR) have been introduced by Reserve Bank of India. To ensure smooth sectoral flow of credit envisaged in the credit plans monitoring

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[2]. Proximity means the villages located near to the branches or within a manageable distance from the branches are allocated so that the people of the area have not to cover much distance. Contiguity means the villages adjoining each other are allocated so that more people have accessibility to the branch by covering less distance. Cluster means the villages adjacent or adjoining each other in one group only are allocated so that it will be cost effective for bank branches to supervise their advances.

will be done by different levels like branches themselves, the controlling offices of respective credit agencies, Block Level Banker's Committee, Lead Bank Officer (DDM) and NABARD at the district level.

The unit of planning as envisaged under service area approach is 'village' and therefore, the credit plan should start from the village and aggregated to branch, block and district levels. All the credit agencies will prepare annual village wise credit plans based on village surveys and other information gathered from developmental agencies, government department, Lead Bank, NABARD etc. The village credit plan will include financial assistance activity wise outlay under priority sectors, financial assistance outlay under non-priority sectors in aggregate and quarterly break up of plan based on seasonality and target fixed quarter wise. The village credit plans (VCPs) once prepared and finalised will be aggregated on the format LBR-1 at branch level to make the 'Service Area Credit Plan' (SAP).

Similar procedures as in the rural areas may be used to prepare credit plans for the activities of priority sectors and other segments at the urban and semi-urban areas by the branches located at these centres. The guidelines have not spelt out as to how to earmark funds for semi-urban or urban area, from the rural areas. The plans for semi-urban and urban areas are prepared keeping in mind the potential, demand, incomplete units, infrastructural supports, earmarked resources and staff capacity. The mandatory targets under various government-sponsored programmes to be implemented at urban and semi-urban centres are integrated in the credit plan.

Block Credit Plan

A block credit plan includes:

- A service area credit plans of all concerned credit agencies, which covers all villages of the block.
- Non Service Area Credit Plans (NSAP) of all semi-urban and urban centres located within the block

The priority sector lending programmes of villages and urban or semi-urban area of respective credit agencies as finalised at block level bankers committee, are aggregated sector wise, activity wise, programme wise, in to block credit plan. However these figures would be modified after comparing with the estimates of PLCP prepared by NABARD. The variations between the two are reconciled and a consensus is arrived at.

District Credit Plan

The district credit plan is the aggregation of block credit plans or credit plans of all credit agencies operating in the district. The Lead Bank undertakes this exercise. The district credit plan consists of the following information in addition to aggregated credit data:

1. Updated profile of blocks in the district and service area allocations.
2. Review of performance
3. Development programmes in the district
4. Arrangements of supporting facilities and agencies or departments responsible.
5. Bank wise or activity wise credit plan for priority sector lending including physical aspects.

Section V

Correspondence Between PLCP and DCP

Before we go in to a conceptual critique of the credit planning we shall undertake a brief empirical exercise of correspondence between PLCP and DCP in Thiruvananthapuram District. Our objective is to see how far the targets under PLCP and DCP are close to each other. For the analysis we have selected two time points ie, 1997-98 and 1999-2000. Table.2.1 provides sectorwise targets under potential Linked Credit Plans and District Credit Plans for the two years under the study.

Table 2.1: Sectorwise Comparision of PLCP and DCP Targets Between 1997-98 and 1999-2000 in Thiruvananthapuram District (Rs. In Lakhs)

Sector	1997 – 98				1999 - 2000			
	PLCP (1)	DCP (2)	Difference Between PLCP & DCP		PLCP (3)	DCP (4)	Difference Between PLCP and DCP	
			Absolute Difference (2) - (1)	Percentage Difference ((2 - 1)/(1))*100			Absolute Difference (4) - (3)	Percentage Difference ((4 - 3)/(3))*100
Minor Irrigation	55.37	98.90	43.53	78.61	80.69	76.48	-4.213	-5.22
Land Development	28.98	29.14	.16	0.57	61.46	47.54	-13.914	-22.64
Farm Mechanisation	6.56	10.26	3.70	56.32	10.45	14.81	4.35	41.66
Plantation & Horticulture	10.271	7.5.76	-2.7.0	-26.30	216.12	7.9.9	-136..94	-63.13
Animal Husbandry	11.28	122.53	111.25	985.87	129.48	242.73	113.24	87.45
Fisheries	12.78	14.60	1.820	14.33	37.94	25.31	-12.628	-33.27
Crop Loan	70..33	68.01	-2.3216	-3.3	994.57	1096.69	102.11	10.26
Others		10.261			45.05	17.24	-27.81	-61.74
Secondary Sector(Industry)	629.15	674.24	45.08	7.16	1542.23	1102.0	-440.23	-25.55
Tertiary Sector(Service)	840.73	801.07	-39.65	-4.72	2021.20	1838.15	-183.04	-9.06
TOTAL	2728.3	2516..94	-211.32	-7.74	5140.05	4540.98	-599.06	-11.65

Source : Potential Linked Credit Plans, NABARD and Annual Credit Plans, Lead Bank (IOB), Thiruvananthapuram
Note : Negative figures indicates low DCP targets compared to PLCP targets

It is seen from the table that in the year 1997-98, the absolute difference between PlCP and DCP targets, except in the case of land development is very wide.In both years PLCP overall targets are higher than those of DCPs. In 1997-98 the difference is around 21 crores and in 1999-2000 around 59 crores. In both the years the targets of DCP for animal husbandry sector is relatively higher than that of PLCP. In minor irrigation DCP target was relatively higher in 1997-98 but relatively lower in 1999-2000 when compared to PLCP targets. Similarly there has been a reversal of the relative size of targets in the crop loan sector between the two years. The indications are that difference between the targets of two plans are widening from around 7 per cent in 1997-98 to 11 per cent in 1999-2000.

Table 2.2: Number of Blocks Having Percentage Difference Between PLCP and DCP Targets in Various Sectors

Sector	1997 - 98					1999 - 2000				
	No.of Blocks Having % Difference Between PLCP & DCP					No.of Blocks Having % Difference Between PLCP & DCP				
	0% - 5%	5% - 25%	25% - 50%	50% - 100%	> 100%	0% - 5%	5% - 25%	25% - 50%	50% - 100%	> 100%
Minor Irrigation	4	3	1	3	1	1	4	4	3	0
Land Development	2	1	2	6	1	2	2	2	6	0
Farm Mechanisation	0	3	3	2	4	0	1	5	3	3
Plantation & Horticulture	0	3	2	6	1	0	1	0	11	0
Animal Husbandry	0	0	0	0	12	0	6	0	3	3
Fisheries#	0	3	0	2	5	1	1	0	9	1
Crop Loan	3	4	3	2	0	0	7	4	1	0
Secondary (Industrial) Sector	0	0	2	8	2	0	1	1	10	0
Tertiary (service) Sector	0	3	5	4	0	0	2	5	5	0
	9	20	18	33	26	4	25	21	51	7

Source : Computed from Potential Linked Credit Plan (NABARD) and Annual Credit Plans (Lead Bank, IOB), Thiruvananthapuram.
Note : # Two blocks do not have any credit expectation under PLCP as well as DCP for fisheries sector.

Table.2.2 gives the distribution of blocks classified according to the extent of divergence between PLCP and DCP by broad development sectors. One point that emerges from the table is that at disaggregate level the divergence between the PLCP and DCP would widen further. In 1997-98 for 59 number of cases the difference between the two was more than 50 per cent. In 1999-2000, the number of cases with difference more than 50 percent was 58.

The difference between the credit plans and actual disbursement is even wider. There is also a considerable difference between flow of credit envisaged by DCP to priority sector and actual disbursement of banks to priority sector.Table.2.3 presents the share of priority sector lending and agricultural credit as a percentage of the total credit disbursed by the individual banks.

Table.2.3: Priority Sector Lending and Agricultural Advances as a Percentage of Total Credit DIsbursement. (Rs. In Crores)

Year	Total Credit Disbursed by Banks	Priority Sctor Lending under District Credit Planning(Target)	Realised Priority Sector Lending by Banks	Actual Agricultural Credit by Banks	Percentage of Priority Sector Lending to Total	Percentage of Agricultural to Total
1	2	3	4	5	6=(4/2)	7=(5/2)
1993-94	702	121.33	295	68.37	42	9.7
1994-95	980	153.77	350	75.56	35.7	7.7
1995-96	1131	181.45	449	94.53	39.7	8.3
1996-97	1322	212.30	565	109.07	42.7	8.25
1997-98	1900	257.69	687	131.81	36.1	6.9
1998-99	1998	335.11	750	165.68	37.5	8.3

Source: Compiled from Annual Credit Plans, Lead Bank(IOB), Various Years.

According to the RBI norm, 40 percent of credit disbursed by banks should be disbursed to the priority sector of the economy.Column.6 of the table shows that except for one year (ie, 1996-97), in all other years, credit flow to priority sectors of the economy of the district was consistently below the RBI norm of 40 percent of total credit. From this analysis we can conclude that, the priority sector lending targets fixed by the Lead Bank does not correspond with actual disbursement of banks. Secondly, the banks in Thiruvananthapuram district has, consistently failed in achieving the priority sector lending targets fixed by the RBI for commercial banks.

It may be recalled that the RBI norm regarding credit flow to agriculyture is that 18 per cent to total credit should be deployed in the agricultural sdector. When we look at the actual disbursement of agricultural credit disbursed by banks in Thiruvananthapuram as a percentage of total outlay , we can see that the banks have failed miserably to fulfill the RBI stipulated norm of 18 per cent of total credit to agriculture.Compared to the target as percentage of total outlay, in all the years the actual priority sector lending to agriculture by banks was below 10 per cent. Moreover there was a decline in credit to agriculture from 9.7 per cent in 1993-94 to 8.3 per cent in 1998-99.

Moreover, there are clear indicators that actual credit disbursement to agricultural sector was much below that of the level of credit as reflected by the percentages. This happened because, loans disbursed to other categories were shown as credit being disbursed to agriculture sector.For example, Annual Credit Plan - 1999-2000 for Thiruvananthapuram district prepared by the Indian Overseas Bank, the Lead Bank in the district, states "In agriculture itself more than 80 per cent in the form of short term credit contributed mainly by Agricultural jewel loan, loan against deposit for agricultural purposes etc." This statement clearly shows that jewel loans taken by pledging gold from banks are booked under the head for agriculture advances, and shown as agricultural advances. Further it also states that loans made against fixed deposits are also booked under agriculture advances. And the Lead Bank states that, loans of this nature forms 80 per cent of loans disbursed to agriculture. This would clearly mean that only negligible amount of credit only would have actually flown to the agriculture sector. And it is also important to note that even after inflating the amount of credit flown to agriculture by including jewel loans and loans against deposits, the banks in the district have been able to provide only less than 10 per cent of their total advances to agriculture.

Section VI

A Critical Review

There is a broad consensus that the credit planning has had a beneficial impact in directing credit towards sectors and sections that were earlier left outside the ambit of institutional credit. The priority sector lending of the banks has increased 14.6 per cent of the total credit in 1969 to 40.9 per cent in 1991.The share of agriculture in the bank credit increased from 5.4 per cent to 16.4 per cent in the same period (Shajahan, 1998).

Narayana (2000) inquired whether the flow of commercial bank credit to the priority sectors had any impact on investment in agriculture and industry. On the basis of the study by Binswanger which used data from 85 randomly drawn districts of India from 1960-61 to 1981-82 he concluded that the expansion of rural branch network and directed credit flow did have a beneficial effect on agricultural investment and fertiliser demand. He also argued that the effect of directed credit on small scale industry was similar to that on agriculture. Eastwood and Kohli (1999) studied the directed credit and investments in Small Scale Industry in India by using firm level data 1965-78 and concluded that direct credit policy in India was, in a narrow sense, well conceived and successful in the case of small modern sector firms. The financial constraint that the policy was designated to relax did exist and the extra bank credit channeled to small firms helped to raised their investment appreciably.

Ramola and Negi (1991) conducted a study in Tehri-Garhwal District of Uttar Pradesh. They used both secondary and primary data for the two years 1989-90 and 1990-91 to examine the performance of service area approach. They argued that the commitments were fulfilled by more than 100 percent by commercial banks and regional rural banks. They also concluded that the Indian banking system had nearly achieved the basic infrastructural facilities required to meet the objectives of Service Area Approach (SAA).

At the same time many of the studies have noted that the credit planning has been less successful in bringing down the regional disparities. Sarker 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 studied the pattern of changes in the share and hierarchical positions of the various regions during the period 1985-1990. They concluded that there are wide imbalances in the distribution of credit in different regions and they noticed the same trend for the entire period 1985-1990. The Northern region stood at the top, while at the bottom of the list was the North Eastern region. The researchers used non-parametric tests for paired observations and the multi dimensional scaling. They showed that the North Eastern and the Central region were leading in achieving their targets while the western region failed in its target. Rambabu (1995) has shown that the correlation coefficients between the banking quotients and income quotient, except that of Kerala, exhibit a significant relationship between banking and economic growth.He argued that eventhough the disparities has scaled down with the introduction of social control the inter regional and interstate disparities in banking development continued to persist.

Database for Credit Planning

A major constraint for preparation of realistic SAP is the inadequacy of local level deata. Existence of an accurate, imaginative and effective information system on which the credit planning is built is essential. Emphasis should be not on the volume of data but on the relevance and timeliness of data. There is a general opinion among the bank officials that the quality of village credit plans drawn up by branches are not realistic due to defective and inadequate data in the village profiles and lack of break up of these profiles at the ward levels. The credit plans prepared are trend oriented, primarily based on the past experience and overall impressions and perceptions of branch managers. Some bank managers sincerely admitted that the data contained in the village profiles are not using in the true sense and the credit plans prepared in many cases are independent of such useful information. This shows that there is scope for improvement and refinement in the quality of credit plans formulates by the individual branches.

Under the service area approach banks are supposed to prepare the village profiles. But it has been observed that only few branches are preparing these necessary socio-economic data for credit planning. Banks' general complaint is that authentic and reliable data on various items are not available in the village economy. The local agencies like DRDA, DIC, Block, Village record etc, which provides data on various schemes according to banks are not satisfactory. Bank branches did not receive the required co-operation from the local authorities for the service area credit planning.

In Kerala service areas of branch banks have been allocated wards of villages (i.e., sub divisions of village panchayat). As a result the current practice of the branch banks is to approximate ward wise data on the basis of the village level data for the incorporation in the profiles. The approximation of ward wise data will not be accurate since it is based on the village level data that itself is not complete to prepare a service area credit plan.

The opinion in general expressed that is that village or branch credit plans could be become more meaningful only if authentic and complete village level data are made available and sooner or later the state governments should move towards a system of building up village level data. Branch level functionaries required intensive training for improvement in the quality of credit plans to solve the structural deficiencies in the credit planning system.

Inadequate Linkage with Development Plans

Krishnaswamy (1979) pointed out that there are various difficulties involved in adequate credit planning because, essentially, the credit plan is a short-term instrument. According to him, our credit planning will continue to be a loose instrument because it will not be possible for a bank to fully anticipate the credit needs and demand beyond three months. Realistic credit planning requires that the bank be able to anticipate both its resources and the demand for its resources much more precisely for a longer period. The way out is to integrate the credit planning with the economic activities formulated in the development plans by the government departments besides the mandatory lending programmes.

Ojha (1990) has also 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 Governments should initiate immediate steps for decentralised development planning and make available to banks, if not village, atleast block level development plans at the earliest. The involvement of the state governments should embrace all rural development activities and not confined to State sponsored or subsidy linked schemes like IRDP alone.

In the present context service area credit plans are giving importance only to the mandatory programmes like IRDP, SEEUY and state level special programmes. These programmes dominate more than the development plans at the local level financing under the credit plans. As a result, credit plans are turned out to be another version of subsidy-linked schemes. At the same time the agencies like DRDAs are not in a position to provide branches with their physical and financial targets for the next year before the branch credit plans are to be finalised.

Report of the Agricultural Credit Review Committee (1989) also discussed the credit planning in the context of development planning. The committee emphasised the need for dovetailing the service area approach with development plans at the local level. According to the committee the statistics required for credit planning at the grass root level is far from satisfactory. The committee pointed out that unless the concerned Government Departments 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 district credit plans are not being dovetailed with district development plans and as a result, disaggregating of these plans into branch specific action plans will not serve the credit needs at the local level. Thus they recommended that credit planning has to be decentralised further in the years to come, with reliable statistical and information systems are commissioned to collect and analyse block level and village level data for formulating the village credit plan (VCP).

Weaknesses in Procedures

Even if the individual banks are assessing their service area in principle, banks prepare their credit plans in compliance with the background papers prepared by NABARD and Lead Bank. The guidelines for credit allocation at the block level, should not be considered as blueprints of action but as guides to their operations in their own service area which is confined to a limited number of wards in a particular panchayat. The background papers may bias the quality of assessment of credit needs in the service area. The individual banks' assessment should be independent of the broad guidelines for credit disbursement by the NABARD and Lead Bank. The comparison should be made only after the individual banks' assessment of their own areas.

With the introduction of credit planning at the branch level under the service area approach, the branch performance budget would be dovetailed in the branch credit plan, i.e., the branch credit plan would itself serve as the branch performance budget. But such an arrangement has not taken place even after a decade of service area credit planning. The controlling officers are still reported to be handing down their own performance budgets for branches in many of the cases of branch banks. More over, in cases where the branch credit plans have been accepted as performance budgets, due to the imperfections and inadequacies in the credit plan it is not correct to consider them as realistic performance budgets.

It is reported that annual targets under special programmes are generally finalised by Government agencies in April while Branch credit plans are to be finalised before the end of the March. Thus credit provision for sponsored programmes is made on the basis of the past experience and informal consultations with the concerned agencies. Due to non- availability of details of government sponsored schemes in time before the finalisation of the branch credit plans, some times branches will be forced to revise their credit plans to include such schemes subsequently, distorting and upsetting the credit and resource mobilisation plans.

The co-ordination between co-operative and commercial banks, for the purpose of drawing up a realistic service area credit plan has not been significant so far. The commercial branch banks are complaining that the information on their lending programmes is not forthcoming from the co-operatives due to the lack of co-ordination. It is necessary to introduce a system of credit planning in the co-operative sector.

The Branch managers are yet to develop the required temperament, aptitude, skill and job experience in preparing grass root level credit plans and executing them. Too many responsibilities have been placed on the branch managers. Whether they would visit all villages under their jurisdiction, devote adequate time and have patience to collect the detailed information called for is the real issue. It may be difficult, with poor infrastructure, for the lead bank office to assist each branch manager of the district in surveying villages.

Ojha (1989) has drawn attention to collaborative aspect of rural planning between credit agencies, development agencies of the Government and elected authorities of different levels. He argued that, the Government development agencies, on their part, would have to continue to recognise the need for collaborative support of credit agencies that have a better understanding of the viability aspect of the projects.

New Economic Policies

The consensus on the importance of credit planning has been broken with the new economic reform during 1990s. Narasimham Committee (1991) reviewed the financial system in the context of the structural adjustment programme recommended that direct lending programme be gradually phased out and for the interim, directed lending be limited to redefined priority sector of small and marginal farmers and weaker sections. The allocation for the priority sector was to be limited to 10 percent of the aggregate lending of commercial banks. The Government of India has not yet accepted this recommendations, but has adopted a policy of widening the scope of priority sectors and a slow reduction in the share of the directed credit. The share of priority sector has come down from 40.9 per cent in 1991 to 37.8 per cent in 1996 (Shajahan, 1998). Critics of the new policies such as Mujumdar (1994) have argued that so long as there is mass poverty, unemployment and underemployment on the alarming scale continue to haunt the economy, directed credit and concessional lending must continue to form an important ingredient of macro - economic policy.

The Report of The High Level Committee on Credit to Small Scale Industries (RBI:1998) after pointing out various reports which recommended scaling down of the priority sector advances as a percentage of the net advances and the gradual abolition of the priority sector concept altogether, pointed out that the Committee does not see any reason to propose the scaling down of the priority sector lending or the removal of small scale industries from this sector. They quoted a recent official study (Report on the Second All India Diagnostic Survey on Sickness in SSIs Units-1995-96) conducted by the Development Commissioner SSI, not more than 15-20 per cent of the SSIs have been able to get access so far to banks or institutional funds. According to the Committee, this confirms the widely prevalent view that the sector has not been getting adequate credit. In such an environment, the Committee does not see any reason to propose the scaling down of the priority sector lending or the removal of SSIs from this sector.

According to the Committee, if bigger SSI units are permitted to be a part of the priority sector, it is quite likely that the relatively smaller units in this sector may not be able to get proper credit support and may be squeezed out. Thus it should not be at the cost of the tiny, village and really small industrial sector. Those units which could be categorised as SSIs as a result of the revision (Government raised the ceiling of investment in plant machinery for SSIs from Rs. 60 lakh to Rs. 3 crore), in Committee's view, are not in need of the systematic support provided by the priority sector lending. And they should be kept out of the priority sector. The Committee is also of the firm view that commercial banks should not be permitted to utilise funds earmarked for direct priority sector lending for investment in bonds issued by SIDBI, SFCs, NABARD etc.

Despite the opposition from many quarters the 1990s have witnessed a steady reorientation of the financial sector policies. According to Reserve Bank of India (1992) "Priority sector lending has now attained the correction which was sought to be achieved in the imbalance in the sectoral distribution of bank credit. With attainment of these targets and having put in place a vat institutional set up, there is a need to transform the system of priority sector lending in a more selective and sharply focused arrangement taking into account the imperatives of social concerns for assisting the truly weaker sections and tiny units".

The Report of the High Level Committee on Agricultural Credit through Commercial Banks (1998) discussed the efficacy of the Service Area Approach with banks, Government officials and borrowers. The Committee came out with the opinion that Service Area Approach is an anarchonism surviving by default rather than design and that in an environment increasingly characterised by the interplay of market forces, it is an impediment to borrowers and banks alike. The mechanical application of the parameters of village allocations had seriously impaired the infrastructure and human resource capabilities of credit plans. The Committee recommended that the responsibility of a particular bank for the credit requirements of a particular village should continue to be made in such a manner that every village is linked to a branch for its credit needs. In respect of such villages, a particular designated service area branch will continue to assume responsibility for requirements of borrowers.

The Committee also strongly recommended that the "agenda" for discussions at the fora created under the Lead Bank Scheme/Service Area Approach, viz. Block Level Bankers' Committee, District Credit Committee and the State Level Bankers' Committee, should be radically changed. The focus at such for a for a present is only the annual exercise for finalising service area plans and allocating targets under the government sponsored schemes and monitoring performance in respect thereof. The Committee suggests that the agenda of these committees should include much greater dialogue between banks and government agencies on matters concerning area development, implementation of new schemes, impact evaluation of technology absorption, identification of fresh proposals as well as viable schemes for credit in the area.

Decentralised Planning

As against the above trend for dismantling the credit planning mechanism, there is also yet another trend in India today, one which is attempting to overcome the weaknesses of the existing credit planning mechanism by integrating it with the decentralised planning. This latter trend assumes special significance in the context of 73rd and 74th constitutional amendments which has endowed the local bodies with substantial planning powers.

Ghosh (1988) emphasised that revamping of credit structure, which is plagued by endemic corruption, is a dire need to ensure credit for the priority sectors. For this to happen, the reorganisation of the co-operatives must be accompanied by genuine decentralisation at the political level. He discussed the experiences of West Bengal panchayat system and Karnataka. The commercial banks did not play their due role by dovetailing their `district credit plans' in to the production and investment plans drawn up by the zila parishads with the help of block - level panchayat samitis. But for the centrally sponsored programmes the credit linkage of the local plans both in Karnataka and in West Bengal have been virtually non existent.

Eventhough the credit planning institutions have been lukewarm towards decentralised planning, in recent years, there has been growing emphasise on what has come to be known as `micro credit'. Rangarajan (1994) pointed out that, since the poor do not have necessary capabilities to approach and negotiate with organised credit institutions, the linking of formal credit institutions with Non - Governmental Organisations (NGOs) and Self Help Groups (SHGs) as an alternative mechanism for meeting the credit needs of the poor. According to him the linkages between the credit agencies and the SHGs and NGOs, are still in the process of evolution and serious efforts are called for to explore this area fully. The basic role of NGOs will be that of catalysts which facilitate project formulation by banks on the one hand and its effective implementation by the beneficiaries on the other. The Self-Help Groups as seen as a safety net for the poor who are hard squeesed by the economic reforms. The banks are being encouraged to lend to SHGs and according to the present norms all advances to SHGs are being treated as priority sector advances.

Chapter 3

ANALYSIS OF DECENTRALISED PLANNING PROCESS AND THE LOCAL PLANS, 1997-98 & 1998-99

In the previous chapter we have discussed the preparation of the district credit plan. The process involved estimation of investment linked to the potential of different development sectors in the district and the credit required to finance it. Therefore, the process of credit planning also implicitly required a general development plan for the district.

Development planning in India was confined to two levels: centre and state. There was no planning worth the name at the local level or at the district level. National Plans were prepared by the Planning Commission and the State Plans by the State Planning Boards/Departments. Even though there were District Planning Offices they did not undertake any district level planning. The so-called District Plans were merely aggregation of the district level schemes of different government departments. The schemes were not prepared taking into consideration the specific development problems and the resource potential of the district. In a sense the Potential Linked Credit Plan (PLCP) was an attempt to fill this gap through providing credit for beneficiary oriented government schemes and also for private investment. The credit planning process described in the earlier chapters could easily complement the centralised district plans that were being drawn up from above. The schemes such as the different self-employment programmes under poverty alleviation packages followed a uniform pattern and underwent little change over time. Certain established conventions and consultative process were also established to link the credit plan to the government schemes.
The decentralised planning process that was initiated in Kerala from 1997-98 involved a paradigm shift in the preparation of the district plan. District planning became a genuine bottom up planning process. The district plans were to be prepared by integrating the local plans drawn up from below. In this chapter we shall first describe the processing of decentralised planning in Section I, that was introduced as part of the people's plan campaign. We shall then examine the pattern of financing of local plans and the expected credit in Section II. An attempt is also made to analyse the factors that might have influenced the credit expectations of the local plans, which is briefed in Section III.

Section I

The Decentralised Planning Process

The decentralised planning process involved the following distinct phases:

1. Identification of the developmental needs of the local bodies,
2. Objective assessment of the problems and resource potential,
3. Prioritisation and listing of development proposals,
4. Projectisation of the proposals
5. Preparation of the plans of the lower tiers,
6. Preparation of the plans of the higher tiers,
7. Appraisal and approval of the plans

We shall now briefly discuss each of the above phases in the preparation of the local plans. This description will be useful when we shall discuss the problems related to the integration of the credit plans and the local plans in the next chapter.

Identification of the development needs of each locality is made through involving citizens in every locality. For this purpose *Grama Sabhas* are convened. Given the large size of *Grama Sabha*s in Kerala the deliberations are to be organised in subject wise discussion groups. The participants may go to any of the subject groups and express any of their related felt needs and perceptions of the development problems. They are listed by the convenor in the group and presented in the plenary for adoption.

Listing of the felt needs is only the first step in the planning process. An objective assessment of the resource potential and constraints to meet the needs to be made. The local planners are encouraged to undertake a number of participatory enquiries such as collection of secondary data, study of local geography through transact walk, key informal discussions and other similar participatory methods. The findings of these studies and the findings of the discussions at the *Grama Sabha*s are put together into a comprehensive Development Report for the local body.

The development report is discussed in development seminar attended by the representatives of the *Grama Sabha*s and key officials and experts in the locality. The seminar after thoroughly discussing the report in the subject groups draws up a list of projects that may be included in the plan.

The seminar also elects task forces, one for each development sectors, in order to write up the proposals in a uniform project format. The relevance of the project, objectives, criteria for selection of beneficiaries, organisation of the project, investment requirements and the expected flow from different sources, financial analysis, technical analysis, social and environmental assessment and the system of monitoring the project are to be stated.

The elected councils of the local bodies make the final selection of projects to be included in the plan. The rationale of prioritisation and a brief discussion of the overall strategy and financing pattern and description of the projects constitute the plan document. In order to minimise duplication in the higher tiers of the panchayat, the block and district panchayats are to prepare their local plans only after the grama panchayats have made a fair progress in the planning process.

The draft plan is to be approved by the District Planning Committee (DPC) before it can be implemented. In order to assist the DPCs to appraise the projects and plans a new institutional mechanism has been set up at the block and municipal level and also at the district level. These are called expert committees and consisted of certain categories of government officers who are designated as members of this committee by Government, non-official experts in various disciplines who have volunteered to work and also state level resource person's who were involved in the People's Campaign. The expert committees' function through different subject committees and each subject committees examines the projects that are related to their area. The expert committees have no right to change the social priorities expressed by the local bodies. Their mandate is merely to examine if the plan and projects confirmed the guidelines issued by the government and assess the financial viability and technical feasibility of the project. They are to communicate their opinions to the DPC for the latter to make the final decisions.

So far three annual plans have been prepared and implemented by the local bodies. The preparation of the first annual plans (1997-98) took over a year to complete. The sequence of phases, key activities and the level of participation are summarised in Table 3.1.

Table 3.1. Planning from Below: Important phases

Phases	Period	Type	Important Activities
I	August-October 1996	Grama Sabhas	Convening of Grama Sabhas and ward conventions for identifying local development problems
II	October-December 1996	Development Seminars	Objective assessment of resource potential and development problems and listing of tentative solutions to the problems identified.
III	December1996-march1997	Task Forces	Preparation of detailed project documents based on the recommendations and suggestions of the development seminar.
IV	March-may 1997	Plan Document	Prioritisation and selection of projects and finalisation of the plan document.
V	April-September 1997	Annual Plans of Higher Tiers	Integration of local level plans and preparation of block and district level plans
VI	May-1997	Plan Appraisal	Technical and financial appraisal of projects and plans by expert committees.

Source: *Thomas Isaac, 1999*

During the second and third annual plans broadly the same procedures were followed. Several modifications were made with regards to the guidelines given to the local bodies for plan formulation based on the previous year's experience. To avoid duplication of programmes a limited functional division was introduced with regard to the nature of projects that may be undertaken by the different tiers of the local bodies. The guidelines also highlighted certain priorities to be observed by the higher tiers in order to ensure complementarity of their programmes to those of the lower tiers.

The guidelines with regards to sectoral investment also may be mentioned. Local bodies are to invest a minimum of 40 per cent of their grant-in-aid in the productive sectors and were not to invest more than 30 per cent of their grant-in-aid for the infrastructural sector. For the urban bodies, the minimum share of productive sector is fixed at 30 per cent. The ceiling on investment in the infrastructural sectors was applicable for Special Component Plan (SCP) and Tribal Sub Plan (TSP) but otherwise there are no restrictions on the sectoral choice. Ten per cent of the grant-in-aid is made mandatory for the women component plan.

Section II

Pattern of Financing of Local Plans at the State Level

Until 1996 Kerala was a state with a weak local government structure. However the local bodies enjoyed higher fiscal autonomy than any other part of India, which is as high as 50 percent. Tax and non-tax revenue together constituted 65 percent of the total receipts of panchayats in Kerala between 1960-61 to 1993-94. Since the early 1980s the rate of growth of grants had exceeded the rate of growth of own resources. The own revenue of the panchayats grew at a rate well below the rate of growth of expenditure, raising the ratio of expenditure to own revenue from 178.45 in 1980-81 to 225.5 in 1993-94. Resource crunch had left many panchayats as negative fund panchayats. These panchayats divert the grants for purposes not envisaged by grants (Shaheena, 2000).

The surplus from their own resources that the local bodies could set apart on new development work after meeting their establishment charges and other routine expenses have been very limited. The situation changed very dramatically after the devolution of the plan funds to the local bodies. The total (untied) plan grants to the local bodies increased from about Rs 30 crores in 1995-96 and Rs 212 crores in 1996-97 to Rs. 749 crores in 1997-98 and to Rs.950 crores in 1998-99.

The Peoples Planning Campaign emphasised that the local bodies should mobilise additional resources for financing the plan. They were to integrate their own surplus funds, if any, and funds from the State and Centrally sponsored schemes with a grant-in-aid while preparing the local plans. They were to mobilise additional resources in money, labour and kind from beneficiaries and the community. Thus the major additional sources of funds identified are the following:

1. Surplus after meeting the non-plan expenditure (own funds),
2. Funds from the State and centrally sponsored schemes,
3. Voluntary contribution,

4. Beneficiary contribution,
5. Loans from Co-operative institutions,
6. Loans from other financial institutions.

Additional resource mobilisation in the context of decentralised planning is conceived to be the sum total of all the above-mentioned sources other than grants from the state-government. Thus the term has a wider connotation than the conventional usage. Normally, the beneficiary contribution, voluntary labour and the credit made available to the beneficiaries are not included in the plan outlay.

Table3.2. Pattern of Plan Financing by the Local Bodies in Kerala 1997-98, 1998-99

Tiers	Period	No. of Projects	State Assistance	Own Funds	State Sponsored	Centrally Sponsored	Loan from Co-operative Institution	Loan from Financial Institutions	Voluntary contribution	Beneficiary contribution	Others	Total
Grama	1997-98	50508	42.71	6.36	3.24	2.39	1.99	8.87	4.35	27.39	2.69	100.00
Panchayats	1998-99	73548	49.73	9.85	4.70	3.41	1.46	2.24	5.31	20.37	2.93	100.00
Block	1997-98	8798	36.67	0.24	5.19	28.70	1.02	14.74	2.06	9.93	1.45	100.00
Panchayats	1998-99	15036	25.07	0.15	7.32	40.05	0.79	18.94	1.54	2.51	3.63	100.00
District	1997-98	3360	68.64	0.19	6.67	1.84	0.91	3.44	2.60	8.02	7.69	100.00
Panchayats	1998-99	3874	63.67	0.18	8.55	4.85	0.66	8.39	2.08	5.15	6.46	100.00
Municipali-	1997-98	4212	38.33	16.29	3.26	3.29	1.00	14.55	5.35	15.19	2.73	100.00
ties	1998-99	5876	40.47	17.71	5.70	4.96	1.31	13.45	2.76	9.59	4.06	100.00
Corporations	1998-99	1220	42.58	23.72	4.48	6.49	0.31	5.10	3.09	9.53	4.70	100.00
	1997-98	888	34.77	10.28	6.30	1.03	1.15	22.07	4.85	15.94	3.61	100.00
Total	1997-98	67766	43.54	5.84	4.10	6.82	1.57	10.58	3.90	20.58	3.06	100.00
	1998-99	99554	43.85	7.81	5.81	12.89	1.15	8.14	3.73	12.99	3.63	100.00

Source: *State Planning Board*

The total outlay of the local body plans for 1997-98 was Rs 1735.28 crores and for the year 1998-99, Rs 1925.90 crores. The grant-in-aid constitutes nearly 44 per cent of the overall outlay. The share of grant-in-aid in the overall outlay increased sharply for panchayats from 42.71 per cent to 49.3 per cent and declined sharply for block panchayats from 36.67 per cent to 25.07 per cent and for Corporations from 42.58 per cent to 34.77 percent between 1997-98 and 1998-99. For the district panchayats and municipalities the ratio has remained more or less the same. We shall now examine the pattern of additional resource mobilisation.

The second largest contributor to the financing of plans is beneficiary contribution. However, its share declined drastically from 20.58 per cent to 12 percent between 1997-98 and 1998-99. It should be borne in mind that beneficiary contribution is prone to some exaggeration. Beneficiary contribution is the amount that would be paid into the account of the local body by the beneficiaries and the complementary net additional investment that the beneficiary would have to make to avail of the benefits of the scheme. During the first year, it would appear, that in many projects the gross investment of the beneficiary had been included as part of the project finance. The reduction in the beneficiary contribution is partly a reflection of the correction of this mistake. The voluntary contribution constitutes 10.58 per cent of the plan outlay in 1997-98 and 8.14 per cent of the outlay in 1998-99.

The State sponsored Schemes forms only 4.10 to 5.81 percent of the expected total expenditure. The share of the centrally sponsored schemes has increased from 6.82 per cent in 1997-98 to 12.89 percent in 1998-99. It is clear that during the first year, there was not a sufficient integration of these programmes in the local plans. In the block panchayats the share of centrally sponsored schemes rose from 28.7 per cent to 40.05 per cent. However, these State sponsored programmes continued to be under estimated. It may be noted that the ratio of state sponsored schemes to the grant-in-aid to the local bodies was 36 .8 per cent in 1997-98 and 17.52 per cent in 1998-99. The actual ratios in the local plans worked out to be only 9.4 per cent and 13.3 per cent respectively. This is partly due to the lack of clarity among the local bodies as to the probable amount they are to receive from these two sources, at the time of plan preparation.

Own resources, which are a surplus from non-plan account, forms 5.84 and 7.81 per cent of total outlays during 1997-98 and 1998-99 respectively. The share of own resources is relatively higher for the urban local bodies who have a relatively better resource position. In contrast the block and district panchayats do not have any revenue of their own and therefore the share of their internal funds in the plan outlay is negligible.

Finally, let us take up the expected contribution from the co-operatives and other financial institutions in the financing of local plans. The first point to be noted is the relatively low share of credit in the outlay of local plans. In 1997-98 the expected credit from the co-operatives and commercial banks was only Rs 210.82 crores or 12.15 per cent of the plan outlay. During 1998-99, it declined to Rs 178.92 crores or 9.29 per cent of the plan outlay.

Secondly, the relative ratio of expected credit from the co-operatives and the commercial financial institutions. In spite of the wide network of primary credit societies covering all the panchayats in Kerala, there was no concerted attempt to tap this source of finance. The co-operatives play a much larger role than commercial banks in catering to the needs of agricultural and small-scale industries sector. The expected credit from the co-operative sector is only around 14.8 per cent of the expected credit from the other financial institutions.

Thirdly, there is a significant inter-tier difference in credit expectations. The credit from financial institutions constituted 14.55 per cent of the municipal plan outlay in 1997-98 and 13.45 per cent in 1998-99. The Corporation plans the share was only 5.1 per cent in 1997-98 but sharply rose to 22.07 per cent in 1998-99. In the plans, the block panchayats have better credit linkages with the share of credit from financial institutions rising from 14.74 per cent in 1997-98 to 18.94 per cent in 1998-99. The grama panchayats and district panchayats have the lowest credit linkage. With respect to grama panchayat plans there is a sharp decline in the share of financial institutions in the plan outlay from 8.87 per cent to 2.24 per cent.

Inter district variations in the composition of credit linkage of plans are given in Table 3.3. There are significant inter district variations. The range of share of credit from financial institutions in the plan outlay in 1997-98 ranged from 4.75 per cent in Kottayam to 15.40 per cent in Ernakulam. During 1998-99 the maximum was Kozhikode with 15.40 per cent and minimum was Wayanad with 1.83 per cent. The expected share of financial institutions of local plans sharply declined in Thiruvananthapuram, Kollam, Ernakulam and Wayanad during the period of analysis.

Loans from co-operatives remained very low across various districts during both the years. In 1997-98, the share of co-operative credit was highest at 3.63 per cent in Kollam and lowest in Kozhikode with 0.46 per cent. In 1998-99, the ratio was highest in Ernakulam with 4.12 per cent and lowest in Pathanamthitta with 0.33 per cent.

Table 3.3 Inter district Variations in Plan Financing, 1997-98 & 1998-99 (Rs. In Crores)

Sl. No.	District	Period	Loan from Co-operatives Institutions	Loan from Financial Institutions
1	Trivandrum	1997-98	1.48	12.92
		1998-99	0.62	6.22
2	Kollam	1997-98	3.63	10.79
		1998-99	0.88	6.42
3	Pathanamthitta	1997-98	1.51	6.35
		1998-99	0.33	10.01
4	Alappuzha	1997-98	0.73	8.78
		1998-99	0.35	11.27
5	Kottayam	1997-98	1.01	4.75
		1998-99	0.38	6.04
6	Idukki	1997-98	0.49	9.59
		1998-99	0.53	4.37
7	Ernakulam	1997-98	1.79	15.97
		1998-99	4.12	5.87
8	Thrissur	1997-98	1.22	9.20
		1998-99	0.84	9.44
9	Palaghat	1997-98	2.30	10.00
		1998-99	0.76	6.82
10	Malappuram	1997-98	1.15	9.34
		1998-99	0.92	8.20
11	Kozhikode	1997-98	0.46	9.50
		1998-99	0.62	15.04
12	Wayanad	1997-98	0.90	7.91
		1998-99	0.74	1.83
13	Kannur	1997-98	1.87	15.40
		1998-99	2.22	11.86
14	Kasargode	1997-98	1.59	5.36
		1998-99	1.53	3.60
Grand Total		1997-98	1.57	10.58
		1998-99	1.15	8.14

Source: *State Planning Board*

We have made an attempt to examine the factors that might have influenced the per capita credit of the local body plans. We worked out per capita credit in the local plans of the grama panchayats and regression was run using an Ordinary Least Square Semi-log function. The results are given in Table 3.4. Regional dummies were used to represent the regional characteristics. We have used the database of Shaheena (2000) for our exercise. Following are the sources for the variables.

1. *Plan Resource mobilisation*: Data on estimated plan resource mobilisation for 1997-98 and 1998-99 compiled from the appendices of the local plans submitted by the local bodies to the Kerala State Planning Board (KSPB).
2. *Non-plan own resources*: First State Finance Commission for the year 1994-95
3. *Indicators of Development:* Data on various indicators of development at the panchayat level are taken from the following sources.
   - 1991 Census: organised sector employment.
   - Development Reports and Secondary data forms prepared by the panchayats: Area under cultivation of important crops like paddy, coconut, arecanut, rubber, pepper, cardamom, tea and coffee.
   - Block level agricultural statistics: Production and productivity of the above mentioned crops.
   - The First State Finance Commission: Length of metalled roads in each panchayat
4. KSPB: Adult population attending the Gram Sabhas during 1997-98 and 1998-99. (Shaheena, 2000)

Regional dummies representing four different regions are used to capture the geographical and historical factors. The three regions of Travancore, Cochin and Malabar have different historical background. These historical differences extend to the contemporary period in the form of differences in socio-economic structure and political character. Then the Travancore region is further divided into southern coastal districts of Thiruvananthapuram, Kollam and Alappuzha and south central districts of Pathanamthitta, Kottayam and Idukki.

The adjusted R^2 is very low, indicating that there are factors other than the above-mentioned, which influence the contribution from the financial institutions. Table 3.4 reveals that there is a significant positive relation to the proportion of industrial labour force. Contrary to the expectations, there is negative association between road length and expected loans disbursement, during the period of analysis. It is to be noted that there is no significant relation between agricultural development and institutional credit. Southern coastal districts had been able to tap more resources through institutional credit than the Malabar area during both the years.

Table 3.4: Regression of Institutional Credit on Predictors

Items	1997-98		1998-99	
	Coefficient	Level of significance	Coefficient	Level of significance
Constant	3.780	0.000	2.503	0.000
Total Population	0.000	0.000	0.000	0.377
MPSOH_TO *	0.000	0.000	0.000	0.033
MET/SQKM **	-0.031	0.008	-0.020	0.216
Agriculture development Index	0.365	0.449	0.914	0.151
Own Resources	0.003	0.212	-0.006	0.121
Dummy for Thiruvananthapuram, Kollam, Alappuzha region	0.048	0.734	-0.597	0.001
Dummy for Ernakulam, Thrissur	-0.335	0.022	0.128	0.489
Dummy for Pathanamthitta, Kottayam, Idukki	-0.391	0.017	0.057	0.785
Adjusted R^2	0.041		0.033	

Source: Shaheena, 2000
*Notes: *Proportion of organised sector employment*
***Metalled road per SQ KM*

Inter-Sectoral Variations in Plan Financing:

Differences in the financing patterns among the broad development sectors are given Table 3.5. Financing pattern by development sectors reveal significant differences. The expected credit linkage was relatively higher in the material product sector when compared to the service and infrastructure sectors. The share of co-operatives and financial institutions in the outlay of the production sectors was 16.28 per cent in 1997-98 and 9.04 per cent in 1998-99.

The ratio was lowest in the infrastructure sector with a share of 4.24 per cent in 1997-98 and 7.61 per cent in 1998-99. However, in 1998-99 the share of expected credit was highest in the service sector with 10.49 per cent.

The expected credit linkage in Special Component Plan for Scheduled Caste (SCP) and Tribal Sub Component Plan (TSP) was much lower than general sector plans. In 1997-98, as against a credit ratio of 13.77 per cent in the general sector plans, the credit ratios in SCP and TSP were only 5.74 and 2.48 per cent respectively. In 1998-99, the expected credit for SCP and TSP shows a slow improvement but still it remains significant lower than the general sector.

In the first year, the credit ratio in Women Component Plan (WCP) was surprisingly high at 21.91 per cent. In the subsequent year, it was reduced to 10.21 per cent, which perhaps a more realistic approach to financing the projects for women development.

Table 3.5: Inter Sectoral Variations in Resource Mobilisation (Percentage of loans from co-operatives and other financial institutions in the plan outlays of different sectors)

	Period	Loan from co-op. Institutions	Loan from Fin. institutions
Productive	1997-98	2.46	13.82
	1998-99	1.33	7.71
Service	1997-98	1.28	10.29
	1998-99	0.66	9.83
Infrastructure	1997-98	0.21	4.03
	1998-99	1.71	5.90
General	1997-98	1.69	12.08
	1998-99	1.27	8.91
SCP	1997-98	1.20	4.54
	1998-99	0.65	5.06
TSP	1997-98	0.33	1.76
	1998-99	0.29	2.03
Total	1997-98	1.57	10.58
	1998-99	1.15	8.14
Women	1997-98	3.29	18.62
	1998-99	2.29	7.92

Source: *State Planning Board*

In Table 3.6, column 4 and 5 we have presented the major development sectors with substantial credit linkages. Only the sectors that share the total expected credit is more than 5 per cent have been separately listed. The other development sectors are included in `Others'.

The figures in column 2 and 3 refer to the share of loans in the total outlay of the respective sector. With respect to credit linkage small-scale industries rank most prominently. It accounted for 15.11 per cent of the expected total co-operative credit and 17.11 percent of the total expected credit from other financial institutions. The share of the industrial sector in the credit rises to 17.99 percent and 23.57 per cent respectively in 1997-98 and 1998-99. The share of credit in the outlays of industrial projects is also relatively high at around 33 per cent in 1997-98 and 28 per cent in 1998-99.

Among crops the garden crops has greater credit linkage than paddy. However, between 1997-98 and 1998-99 the share of garden crops in the co-operative credit declines from 18.98 per cent to 7.40 per cent and in the credit from other financial institutions from 13.68 per cent to 3.34 per cent. Animal husbandry is an equally important claim of the institutional credit accounting for 15 - 16 per cent in 1997-98. However in 1998-99 its share in the total credit expected from financial institutions declines to 6.10 per cent.

The social welfare accounts for 9 per cent of the co-operative credit in both years. With respect to credit from other financial institutions the share of the sector rises from 19.66 per cent in 1997-98 to 34.08 per cent in 1998-99. In terms of share in the sectoral outlay also credit constitutes an important source of finance accounting for around 32-34 per cent. This high proportion is primarily due to the inclusion of centrally sponsored programmes related to poverty alleviation under the sectoral head. Sharp increase in the energy sector in the share of credit both as percentage of sectoral outlay and also as percentage of expected institutional finance in 1998-99 is due to the presence of small number of hydral projects that were included in the local plans.

Housing is yet another important sector were significant credit was expected while formulating the projects. The local bodies attempted to raise finance by linking their housing programmes with the credit schemes of the Kerala State Housing Board and Housing and Urban Development Corporation.

The pattern of sectoral distribution of credit differs significantly between the co-operative banks and other financial institutions. Co-operative credit inflow is expected for development of infrastructure such as roads, bus stands, marketing complexes etc. In 1997-98 the share of infrastructure in co-operative credit was relative small at 2.5 per cent. However in 1998-99 it rises to 33.13 per cent. In contrast the share of the sector in the financial institutional credit is only 9.13 per cent. Yet given the relatively small amount of total credit expected from the co-operatives, as a share of the sectoral outlay other financial institutions continue to be more prominent.

Table 3.6. State Level Financing and Investment Pattern –Sector wise

Items	Period	Percentage of loans in sectoral outlays		Percentage of total credit in different sectors	
		Loan from co-op. Inst.	Loan from Financial inst.	Loan from co-op. Inst.	Loan from Financial. Inst.
Paddy	1997-98	2.51	6.76	6.93	2.77
	1998-99	0.51	2.80	1.58	1.23
Other crops	1997-98	1.51	7.33	18.98	13.68
	1998-99	0.47	1.48	7.40	3.34
Animal Husbandry	1997-98	2.35	17.23	15.02	16.36
	1998-99	2.22	7.15	13.41	6.10
Fisheries	1997-98	4.76	28.82	4.71	4.23
	1998-99	1.82	8.49	2.30	1.52
Co-operation (Agri. & allied)	1997-98	18.74	26.42	5.45	1.14
	1998-99	4.90	11.87	1.64	0.56
Small-scale industries	1997-98	3.85	29.38	15.11	17.11
	1998-99	2.71	25.07	17.98	23.57
Health and related	1997-98	0.36	4.45	2.97	5.45
	1998-99	0.24	1.16	2.19	1.48
Housing	1997-98	1.68	9.26	13.30	10.91
	1998-99	0.64	4.99	8.25	9.16
Social welfare	1997-98	2.21	29.65	9.87	19.66
	1998-99	1.29	32.94	9.41	34.08
Energy	1997-98	0.12	1.65	0.23	0.47
	1998-99	0.00	23.37	0.00	7.06
Roads, bridges,Waiting sheds/bus stands	1997-98	0.20	1.73	1.79	2.37
	1998-99	1.28	2.28	19.46	4.92
Public buildings	1997-98	0.50	27.03	0.56	4.48
	1998-99	6.85	14.90	13.67	4.21
Others	1997-98	1.33	2.39	5.08	1.36
	1998-99	0.56	4.02	2.72	2.76
Grand Total	1997-98	1.57	10.58	100.00	100.00
	1998-99	1.15	8.14	100.00	100.00

Source: *State Planning Board*

Section III

The Potential Linked Credit Plan and Credit Requirements of Local Plans: The Case of Thiruvananthapuram District

We have so far discussed the expected credit linkages in the plans formulated by the local bodies. Now we shall examine to what extent they correspond to the credit allocation of the potential linked credit plans prepared by NABARD. As we noted in the earlier chapter there is a close correspondence between the potential linked credit plan of the district and the operational credit plan for the district prepared by the lead bank. We have chosen Thiruvananthapuram district for a closer comparative analysis.

In Table 3.7 we have given the sectoral investment pattern of the local bodies in Thiruvananthapuram district, suitably reclassified so that it corresponds to the classification scheme used for the potential credit linked plan. Column 2 of the table gives the distribution of grant-in-aid given to the local bodies in Thiruvanathapuram district and column 4 gives the distribution of the credit requirement as per the local plans by development sector. The percentages in column 3 and 5 gives the percentage share of each sector in the total grant-in-aid and total expected credit respectively. In column 6 the sectoral distribution of credit as per the potential linked credit plan is given.

The total grant-in-aid component in the local plans in Thiruvananthapuram district in 1997-98 was Rs76.95 crores. The local body expected to raise an additional Rs24.96 crores was loans from co-operatives and financial institutions. The total credit for the district as per the district potential linked credit plan is Rs 288.23 crores. In other words the credit requirements of the local plans works out to be merely 8.65 per cent of the plan need credit supply to the district 1997-98. Hypothetically there was no dearth of credit to finance local plans. Even when we undertake sector by sector comparison we see that in almost all the major sectors there was no credit gap and the supply of credit was much in excess of the credit requirements of the local plans. The major exceptions are animal husbandry, co-operatives, flood control, public buildings and sanitation.

Table3.7. Sectoral investment pattern of the local bodies in Thiruvananthapuram district (Rs in lakhs)

Items	Expected Grant-in-aid		Expected Institu credit		Expected Credit plan	
	Rs	%	Rs	%	Rs	%
Afforestation	2.16	0.03	1.83	0.07	0.00	0.00
Agricuturalal co-op	26.64	0.35	48.43	1.94	0.00	0.00
Animal Husbandry	229.02	2.98	81.08	3.25	42.11	0.15
Coconut	107.95	1.40	12.42	0.50	1908.48	6.62
Other Co-op.societies	43.87	0.57	84.25	3.38	0.00	0.00
Other Crops	288.98	3.76	121.46	4.87	4390.73	15.23
Dairy development	313.41	4.07	237.77	9.53	395.8	1.37
Drinking water	557.91	7.25	6.94	0.28	0.00	0.00
Education	534.43	6.95	0.31	0.01	150.37	0.52
Energy	270.77	3.52	1.31	0.05	0.00	0.00
Environment	0.00	0.00	0.00	0.00	0	0.00
Farm mechanisation	313.15	4.07	23.26	0.93	498.26	1.73
Fishing	94.33	1.23	49.14	1.97	969.02	3.36
Flood control	29.00	0.38	300.00	12.02	0	0.00
Handloom	122.65	1.59	57.90	2.32	3338.93	11.58
Health	187.15	2.43	11.05	0.44	0	0.00
Housing	1218.90	15.84	218.57	8.76	1090.12	3.78
Land Development	129.11	1.68	4.50	0.18	525.95	1.82
Others	31.97	0.42	7.00	0.28	1248.19	4.33
Paddy	206.76	2.69	44.94	1.80	252.53	0.88
Plantation	8.84	0.11	2.60	0.10	1019.16	3.54
Plantain	97.02	1.26	55.40	2.22	1496.07	5.19
Poultry	166.64	2.17	53.78	2.15	176.39	0.61
Employment	336.76	4.38	214.68	8.60	3039.3	10.54
Public buildings	54.90	0.71	210.00	8.41	0	0.00
Sanitation	403.08	5.24	140.00	5.61	0	0.00
Small-scale Industries	334.52	4.35	358.32	14.36	5349.85	18.56
Social welfare	63.95	0.83	1.00	0.04	0	0.00
Spices	21.14	0.27	85.00	3.41	153.82	0.53
Transport	1348.12	17.52	0.30	0.01	2521.65	8.75
Vegetables	151.89	1.97	62.90	2.52	256.02	0.89
Grand Total	7695.02	100.00	2496.14	100.00	28822.75	100.00

Source: *complied from Potential linked credit plan for Thiruvananthapuram district 1997-98 and Statistical Annexures submitted by the local bodies*

However, the expected credit linkage failed to materialise when the plans were implemented. Unfortunately it was not possible for us to get the final expenditure statements submitted by the local bodies for the year 1997-98. However, as per the statements provided in the District Plan prepared by Thiruvananthapuram DPCs the gram panchayats would realise only a paltry amount of Rs29 lakhs of institutional credit as against the target of Rs 797 lakhs in the initial plans approved by the DPCs.In the case of Block panchayats the target was exceeded as against a target of Rs 134.63 lakhs. It was impossible to realise Rs 134.63 lakhs. This was almost entirely accounted by the centrally sponsored schemes with credit linkages that were being implemented by the block panchayats. Many of the block panchayats had failed to integrate many of these schemes in their annual plans when they where submitted to the DPCs. Later their plans were revised to include these schemes also. As a result the credit realisation exceeded the initial target. Data regarding other tiers of local bodies are not available. However our general judgement has been this tiers also drastically failed to meet their institutional resource mobilisation targets.

The above experience was not confined to Thiruvananthapuram district alone. Available data published by State Planning Board indicates a sharp divergence between the expected share of financial institutions in the total plan outlay and the share actually realised in the final expenditure in all the districts. It must be cautioned the financial expenditure figure given in table does not include the block panchayats. To that extent the percentage share of institutional finance in the final expenditure of local bodies may be underestimated.

Table 3.8. Comparison of The Share Of Co-operative Sector and Other Financial Institutions in the Approved Plan Outlay and Final Plan Expenditure of the Local Bodies

Sl.No.	District	Period	% share in the total outlay of Loans from Co-operatives Institutions	% share in the total outlay of Loan from Financial institutions
1	Trivandrum	Expected	1.48	12.92
		Realised	0.13	0.22
2	Kollam	Expected	3.63	10.79
		Realised	0.22	0.44
3	Pathanamthitta	Expected	1.51	6.35
		Realised	0.00	0.31
4	Alappuzha	Expected	0.73	8.78
		Realised	0.21	1.02
5	Kottayam	Expected	1.01	4.75
		Realised	0.00	0.97
6	Idukki	Expected	0.49	9.59
		Realised	0.00	3.45
7	Ernakulam	Expected	1.79	15.97
		Realised	0.08	0.86
8	Thrissur	Expected	1.22	9.20
		Realised	0.20	2.48
9	Palaghat	Expected	2.30	10.00
		Realised	0.02	0.69
10	Malappuram	Expected	1.15	9.34
		Realised	0.07	0.52
11	Kozhikode	Expected	0.46	9.50
		Realised	0.03	0.47
12	Wayanad	Expected	0.90	7.91
		Realised	0.05	0.02
13	Kannur	Expected	1.87	15.40
		Realised	0.26	1.78
14	Kasargode	Expected	1.59	5.36
		Realised	1.08	0.40
Grand Total		Expected	1.57	10.58
		Realised	0.15	0.95

Source: Kerala Economic Review 1998

As can be seen from table 3.8 in all districts the share of both co-operatives and other financial institutions in the final plan expenditure of the local bodies is significantly lower than in the expected share in the approved plans. Overall the share of co-operative institutions fell from 1.57 to 0.15 than that of other financial institutions 10.58 to 0.95 per cent. What factors concluded this sharp divergence between expectations and realisations? In the next chapter we hope to gain certain insights into this problem on the basis of limited field exercise we carried out in Thiruvananthapuram district.

Chapter 4

FACTORS CONTRIBUTING TO WEAK CREDIT LINKAGE OF LOCAL PLANS

FINDINGS OF FIELD ENQUIRY

Institutional finance in the form of credit from co-operative and commercial banks constituted an important component of the resources that the local bodies were expected to mobilise in addition to the plan grants-in-aid made available to them. In the last chapter we examined the process of plan formulation under the decentralised planning programme in Kerala and the financing pattern of the local plans that were formulated for the years 1997-98 and found a huge shortfall in the actual realisation of credit envisaged under the local plans. In the present chapter, an attempt is made to discuss the possible factors that might have contributed to this evidently weak credit linkage under decentralised planning programme.

Our analysis is based upon field enquiries we carried out in selected local bodies of the Thiruvananthapuram district. Though quantitative information was also collected from these local bodies on a structured format, the main mode of enquiry consisted of in depth discussions with key informants.

The Sample

Thiruvananthapuram district consists of four Taluks namely Chirayinkil, Nedumangadu, Thiruvananthapuram and Neyyatinkara and a total of 12 blocks. The 12 blocks were classified into three categories according to per capita institutional credit allotted under the district credit plan: high (having a per capita credit of more than Rs.2500), medium (having a per capita credit disbursement between Rs.1500 and Rs.2000) and low (having a per capita credit disbursement below Rs.1500). From each category, we selected two blocks.

From each of these six blocks thus identified, we selected two panchayats randomly; yielding a sample of 12.Table.1 gives the details of these panchayats. For these twelve panchayats, we prepared a list of all projects formulated under the People's Plan in the first two years, i.e., 1997-98 and 1998-99 for which institutional credit was envisaged. Relevant details about these projects were obtained from appendix tables of the local plans in the panchayats. The total number of projects, which expected credit in the first two years, is 83.

From the list of projects we identified the financial institutions that were expected to finance the projects. These included 10 commercial banks and 4 co-operatives (Table 4.1). We also met local managers of the branches of the financial institutions.

It was found that no credit was expected for financing the plans of two panchayats (Kilimanoor and Nagaroor). Further details, therefore, were not collected for these panchayats.

Table 4.1:Selection of sample panchayats and financial institutions for the study

Sl.No.	Taluk	Sample Blocks	Block Level PCC	Sample Panchayats	Sample of financial institutions
1	Chirayinkil	Varkala	High	Cherunniyoor Vettoor	SBT, Cheruniyoor IOB - Vettoor, Vettoor DCB
2	Chirayinkil	Chirayinkil	High	Chirayinkil Kadakkavoor	SBT- Chirayinkil, Chirayinkil SCoB SBT, Kadakkavoor
3	Chirayinkil	Kilimanoor	Medium	Kilimanoor* Nagaroor*	
4	Nedumangadu	Nedumangadu	Medium	Aruvikkara Karakulam	IB, Aruvikkara DNB, Karakulam and Karakulam CoB
5	Thiruvanantha puram-rural	Thiruvanantha puram-rural	Low	Kadakampally Kudappanakkunnu	SIB, Kadakampally IOB, Mukkolakkal
6	Neyyattinkara	Nemom	Low	Nemom Kalliyoor	FBL, Nemom and Nemom CoB SBT, Vellayani

Notes: * *Panchayats without credit expectation*
Block level PCC:*Block level Percapita Credit*
SBT : *State Bank of Travancore*
IOB : *Indian Overseas Bank*
IB : *Indian Bank*
DNB : *Dhanalakshmi Bank*
FBL : *Federal Bank Limited*
SIB : *South Indian Bank*
DCB : *District Co-operative bank*
CoB : *Co - operative bank*

Section I

Credit Linkages under the plans of the Selected Panchayats

Table 4.2: Credit Linkages (expected credit) for the plans in the year 1997-98 in the sample panchayats (Rs. In Lakhs)

Panchayat	Total no. of Projects	No. of Projects with credit linkages	Commercial Bank Credit	Co - operative Credit	Total Credit	Total Outlay	Total Plan Outlay	Percentage	Percentage
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(5/6)	(5/7)
Cherunniyoor	70	8	18.46	-	18.72	27.61	77.13	67.80	24.27
Vettoor	61	5	5.38	1.31	6.61	27.88	66.44	23.07	9.97
Kilimanoor	30	0	-	-	-	-	54.85	-	-
Nagaroor	21	0	-	-	-	-	80.98	-	-
Chirayinkil	106	8	18.29	4.0	22.29	23.75	124.27	70.82	13.53
Kadakkavoor	35	3	7.55	-	7.55	28.78	115.44	26.23	6.54
Aruvikkara	45	2	4.50	-	4.50	8.73	102.62	51.55	4.43
Karakulam	57	6	6.81	13.0	19.81	30.13	169.17	65.74	11.71
Kalliyoor	63	5	18.74	-	18.74	40.12	134.34	46.70	13.94
Nemom	79	13	24.59	2.6	27.19	90.21	205.79	30.13	13.21
Kudappanakkunnu	53	9	33.80	-	33.80	39.25	137.50	83.95	23.96
Kadakampally	30	5	18.03	-	18.03	49.65	109.76	26.24	11.87
Total	650	64	156.33	20.91	177.24	366.11	1378.29	84.88	12.03

Source: Primary Survey, 2000
Note: Total Credit = Co - operative Bank Credit + Commercial Bank Credit

Table 4.2 gives the details of credit linkages for the plans in the year 1997-98 under selected panchayats. The highest number of projects (13) expected to be financed by the banks was in Nemom panchayat. On the other hand, only 2 projects were expected to finance by banks in Aruvikkara Panchayat. While all the 10 panchayats demanded credit from commercial banks only four of them were perceived to have credit from the co - operative banks.

The plan outlay of these panchayats ranged from Rs.54.85 lakhs (Kilimanoor) to Rs. 205.79 lakhs (Nemom) in 1997-98.In 1998-99 the plan outlay ranged from Rs. 65.10 lakhs (Cherunniyoor) to Rs.238.46 lakhs (Nemom).

The finances in 1997-98 from the banks constituted 84.88 percent of the outlay of projects that had credit linkage. In both the years, institutional credit was higher in the case of Kudappanakkunnu panchayat for Rs. 33.80 lakhs and Rs. 19.73 lakhs respectively, which constituted 83.95 per cent and 69.52 per cent of the total outlay.

It is note worthy that no credit was received from the banks for any of the 64 projects that were planned to have credit linkages. This had an adverse effect on the plans and in the second year only 19 projects were planned to have credit linkages. Nemom Panchayat, which had 13 projects with credit linkages in 1997-98, had only 4 such projects in 1998-99.The plans of the Kadakkavoor and Cherunniyoor panchayats had no credit linkages in the second year. As a proportion of the total outlay the credit expected from the banks fell from 84.88 per cent to 52.16 percent (Table 4.2 and 4.3).

Table 4.3 gives details of credit linkages of the projects in the year 1998-99. As seen in the table, only a total of 19 projects were expected to be financed by the banks from all the panchayats.

Table.3: Credit Linkages (expected Credit) for the plans in the year 1998-99 under the sample panchayats (Rs. In Lakhs)

Panchayat	Total Projects	No of Projects Expected Credit	Co-Operatives	Commercial Banks	Total Credit	Total Outlay	Total Plan Outlay	Percentage	Percentage
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(5/6)	(5/7)
Cherunniyoor	63	0	-	-	-	-	65.10	-	-
Vettor	88	2	-	10.89	10.89	25.06	103.93	43.45	10.47
Kilimanoor	66	0	-	-	-	-	72.19	-	-
Nagaroor	52	0	-	-	-	-	99.80	-	-
Chirayinkeezhu	88	3	-	2.10	2.10	8.47	94.66	24.79	2.22
Kadakkavoor	65	0	-	-	-	-	91.57	-	-
Aruvikkara	67	1	0.45	-	0.45	2.80	89.97	16.07	0.50
Karakulam	80	1	4.00	-	4.00	4.80	84.8	83.33	4.71
Kalliyoor	71	0	-	-	-	-	99.6	-	-
Nemam	86	4	1.94	.87	2.81	5.85	238.46	48.03	1.78
Kudappanakkunnu	103	7	7.75	11.98	19.73	28.38	152.60	69.52	12.93
Kadakampally	82	1	-	1.04	1.04	3.28	92.97	31.70	1.12
Total	911	19	14.14	26.9	41.02	78.64	1285.9	52.16	3.19

Source: *Primary Survey, 2000*
Note: *Figures in brackets shows the credit as a percentage of the total outlay*
Total Credit = co - operative bank credit + commercial bank credit

Number of projects expected credit from commercial banks fell from 10 to 4. In contrast, the number of panchayats expected credit from co-operative banks was 4 in both the years. Chirayinkil, Karakulam and Nemom expected finance from co-operative banks in both the years. Vettoor panchayat, which expected Rs.1.31 lakhs of credit in the first year, did not include credit from co-operative banks in the plans of the second year. On the other hand, Aruvikkara panchayat, which did not have co-operative credit in the plans of the first year, included Rs.. 45000 from the co-operative credit in the second year.

Expectation of credit both from co-operative and commercial banks has come down in the second year. While expectation of co-operative credit has come down from Rs.20.91 lakhs to Rs.14.14 lakhs, for commercial banks it has decreased to Rs.26.9 lakhs from a total of Rs. 84.88 lakhs.

The Table 4.4 shows the targets set up by the sample commercial banks in our study, under the Annual Credit Plan for the disbursement meant for priority sector lending. It also shows the amount of credit expected by the panchayats from the banks for the projects under the local level planning, most of which were in the sectors identified as priority sectors by the banks. It is seen in the table that out of 10 commercial banks, for 4 commercial banks the credit expected by the panchayat ranges from 43.93 percent to 90.24 percent of the targets that, these banks projected for lending under the priority sectors. The demand for credit generated under the decentralised planning in the year 1997-98 is substantial when compared to the targets of credit under the priority sector lending by the individual banks.

Table 4.4: Comparison Between Targets Under Priority Sector Lending Under Service Area Approach and Credit Expectation By The Panchayats From The Sample Commercial Banks. (Rs. in Lakhs)

Panchayat	Name of the Commercial Bank	Annual Credit Plan-Priority Sector Lending: Target (1997-98)	Amount Expected for projects under decentralised planning: (1997-98)	Credit expected under decentralised planning as a % of the target for the year 1997-98(%)
Cherunniyoor	SBT, Cherunniyoor	29.30	18.45 (8)	62.92
Vettoor	IOB, Vettoor	82.0	5.30 (2)	6.46
Chirayinkil	SBT, Chirayinkil	36.0	12.82 (7)	35.81
Kadakkavoor	SBT, Kadakkavoor	22.70	7.56 (3)	33.30
Aruvikkara	IB, Aruvikkara	57.55	4.5 (2)	7.82
Karakulam	DNB, Karakulam	25.0	6.81 (4)	27.24
Nemom	FBL, Nemom	56.0	24.60 (13)	43.93
Kalliyoor	SBT, Vellayani	75.0	18.75 (5)	25.0
Kudappanakkunnu	IOB, Mukkolakkal	67.5	32.95 (9)	48.81
Kadakampally	SIB, Kadakampally	14.45	13.04 (5)	90.24
Total		465.23	144.78 (58)	31.12

Source: *Primary Survey, 2000*
Note: *Figures in brackets shows the number of projects expected credit*

Sector Wise Distribution of Expected Institutional Credit from Banks

The sector wise distribution of projects which expected credit from financial institutions under decentralised planning in the years 1997-98 and 1998-99 are given in the Table 4. 5.

Table 4.5: Sector wise Distribution of Projects Having Credit Linkages (Rs.in Lakhs)

Sl.No.	Sector	No.of projects	Percentage of projects to total	Co-operatives	Commercial Banks	Total Credit*	Total Outlay
1	Agriculture-Crop Husbandry	13	15.66	1.80	33.33	35.13 (38.25)	91.82
2	Animal Husbandry and Dairy Development	33	39.76	23.81	82.06	105.87 (57.46)	184.25
3	Fisheries	5	6.02	-	15.50	15.50 (34.69)	44.67
4	agricultural co - operatives	8	9.64	2.84	27.40	30.24 (72.78)	41.55
5	Industries	12	14.46	4.50	17.61	22.11 (40.60)	54.45
6	Sanitation, Drinking water, Housing and social welfare	7	8.43	-	7.25	7.25 (33.37)	21.72
7	Projects for women	3	3.62	2.10	-	2.10 (46.97)	4.47
8	Others	2	2.41	-	0.06	0.06 (2.29)	2.62
	Total	83	100	35.05	183.21	218.26 (49.07)	444.75

Source: *Primary Survey, 2000*

Note: **Total credit = co - operative bank credit + Commercial bank credit*

Figures in parenthesis show the percentage of credit to total credit

It is seen from the table that animal husbandry with dairy development has the maximum number of projects (33), which constitute about 40 percent of the total projects. Agriculture crop husbandry and industrial sectors accounted for about 30 percent of the projects. In case of animal husbandry credit as a percent of total outlay is 57.46 for 33 projects. But in the case of industrial sector for 12 projects the credit was about 40 percent of the total outlay. Similar trend is also observed in case of agriculture-crop husbandry. This shows the importance of credit in these sectors for the successful implementation of the projects. The per capita credit for the projects in the industrial and agricultural-crop husbandry sectors are higher than the Animal husbandry with dairy development.

Section II

Implementation of Projects Having Credit Linkages

Of the 83 projects that were expected to partly financed by the institutional credit 63 were not undertaken. The following three factors can be identified which determined whether or not a project could be undertaken despite the non-availability of institutional credit.

Extent of Finance Expected from Banks

Table 4.6 gives the distribution of projects by the category of extent of finance expected from banks. About 37 percentage of projects that expected less than 25 percent of the project outlay to be financed by institutional credit could be implemented despite non-availability of credit. On the other hand, the projects for which more than 50 percent of the finance was expected from the banks, only about 25 percent could be undertaken. In general, the projects with higher dependence on institutional finance faced greater constraint in their implementation. However, the relationship is not very strong. This indicates that there were other factors that determined whether or not a project could be undertaken in the eventuality of non-realisation of credit.

Table 4.6 Distribution of projects by the category of finance expected from banks

Percentage of project finance demanded from banks	Number of projects	Average Percentage of finance
0-25	19	36.17
25-40	12	37.74
40-50	21	49.78
Above 50	31	65.46

Source: *Primary Survey,2000*

Divisibility of the Projects

An important factor that determined the implementation of projects in the eventuality of non-realisation of credit was whether or not the project was divisible. All the 20 projects that were actually implemented had to be undertaken with a much smaller outlay as compared to what was originally planned. For these 20 projects the outlay envisaged was Rs.15673 lakhs. But only 33.85 percent of the planned total outlay of these projects was realised. As a result these projects had to be undertaken with the reduced scope in terms of employment, income generation and number of beneficiaries.

Table 4.7: Realised Pattern of Projects Completed With Grant - In Aid and Other Sources in the Absence of Credit (Rs. in Lakhs)

Panchayat	Project		GIA	OF	SSPO	CSPO	Co-ops	FIs	VC	BC	Others	Total Outlay
Cherrunniyoor	One Cow for One House Programme	Exp.	0.41	-	0.13	-	-	5.33	-	-	-	5.87
		%	100	-	100	-	-	0	-	-	-	19.20
	Integrated Paddy Development Programme	Exp.	3.22	-	-	-	-	2.80	-	0.09	-	6.11
		%	100	-	-	-	-	0	-	0	-	52.70
Vettoor	Comprehensive Coconut Cultivation	Exp.	1.40	-	-	-	-	5.0	-	0.80	-	7.2
		%	100	-	-	-	-	0	-	100	-	30.55
	Drainage	Exp.	0.06	-	-	-	-	0.004	-	-	-	0.064
		%	100	-	-	-	-	-	-	-	-	93.75
	One Cow One House Programme	Exp.	5.0	-	-	-	0.98	-	-	0.04	-	6.02
		%	20.0	-	-	-	-	-	-	2600	-	33.88
	Wells for small farmers	Exp.	0.80	-	-	-	-	0.30	-	0.82	-	1.92
		%	93.8	-	-	-	-	0	-	128	-	93.75
	Goat Farming	Exp.	0.30	-	-	-	0.30	-	0.12	-	-	0.72
		%	100	-	-	-	0	-	83.3	-	-	55.55
Karakulam	One Cow for One House Programme	Exp.	0.86	-	-	-	12.5	-	-	-	-	13.36
		%	141	-	-	-	0	-	-	105	-	16.91
Kalliyoor	Integrated Land Agricultural Development	Exp.	7.98	1.50	-	-	-	2.34	0.46	4.20	-	16.50

Table Continued...

		%	69.92	-	-	-	-	0	100	9.52	-	61.45
	Goat Farming	Exp.	0.90	0.04	-	-	-	4.72	-	0.63	-	6.30
		%	33.33	0	-	-	-	0	-	47.62	-	9.52
Kadakampally	Comprehensive Coconut Development	Exp.	5.64	-	-	-	-	0.41	-	2.54	-	8.59
		%	76.42	-	-	-	-	0	246	0	-	78.81
Chirayinkil	Distribution of Working Implements for Fishermen	Exp.	0.5	-	1.0	-	-	2.0	-	0.9	-	4.4
		%	100	-	0	-	-	0	-	0	-	11.36
	Dristibution of Two Wheelers and Bicycles for Fishermen	Exp.	0.65	-	-	-	-	1.2	-	0.20	-	2.05
		%	100	-	-	-	-	-	-	-	-	31.70
Kudappannakunnu	Comprehensive Coconut Development	Exp.	Exp	-	-	-	-	0.22	-	1.40	-	3.80
		%	%	-	-	-	-	0	-	0	-	76.31
	Poultary Farmming	Exp.	0.50	-	-	-	-	1.50	-	0.72	-	2.72
		%	90.0	-	-	-	-	0	-	120.0	-	48.52
	Egger Nursery	Exp	0.07	-	-	-	-	0.17	-	0.04	-	0.29
		%	100	-	-	-	-	0	-	0	-	24.13
Nemom	Integrated Land Agriculture Development	Exp.	13.79	-	-	-	-	4.38	0.14	10.20	-	28.52
		%	61.42	-	-	-	-	-	-	-	-	29.69
	Integrated Paddy Cultivation Programme	Exp.	3.01	-	2.74	-	-	3.41	26.69	-	-	35.85
		%	100.0	-	0	-	-	0	0	-	-	8.39
	Houses for marginalised groups who possess own land	Exp.	2.20	1.10	1.71	1.32	-	3.61	0.12	0.82	0.07	10.95
		%	100.0	100.0	0	0	-	0	0	0	0	30.13

Source: *Primary Survey, 2000*

Note: Exp. : *Expercted Credit*

% : *Percentage realised*

It is seen from Table 4.7 that the projects which were really undertaken are divisible in nature. The benefits of these 20 projects are distributed among various household beneficiaries. The majority of the projects undertaken are in agricultural-crop husbandry and animal husbandry sectors, which are divisible. Thus an important reason why several projects had to be dropped in the absence of the planned amount of institutional credit is due to the indivisibility of these projects.

From Table 4.8 it is clear that, out of 20 projects, which were undertaken, 19 were from agricultural sector. Out of the 12 projects in industrial sector, none of these were undertaken. For e.g., Nemom panchayat formulated, 3 cottage industry projects viz., Pot construction, furniture industry and textile industry. Since these projects were not divisible, the panchayat could not implement them. Similar is in the case of a project for the installation of a cool-drinks stall.

There are differences in the nature of projects undertaken in different sectors. Many of the projects in agricultural sector envisaged distribution of agricultural inputs to the cultivators. Similarly, projects in animal husbandry envisaged providing cattle and poultry to the beneficiary households. In the eventuality that the part of finance expected from banks, which were not realised, such projects were undertaken but to benefit fewer households than originally planned. On the other hand projects like setting up of small-scale agricultural co - operatives and setting up of small-scale industrial units had to be dropped all together because of lack of adequate funds. In other words, the projects that were affected most adversely because of non - realisation of bank finance were the projects seeking to build productive infrastructure.

Table 4.8 Sector Wise Distribution of Credit

Sector	Total		
	No. of Projects	Expected Credit as % of Total outlay	No. of projects undertaken
Agriculture- Crop Husbundary	13	36.81	8
Animal Husbandry & Dairy Development	33	60.57	9
Fisheries	5	38.78	2
Agricultural Co-operatives	8	71.55	-
Industries	12	39.52	-
Sanitation Drinking Water, Housing & Social Welfare	7	33.37	1
Projects for Women	3	46.97	-
Others	2	2.29	-
Total	83	49.81	20

Source: *Primary Survey, 2000*

Over estimation and Non -realisation of Voluntary and Beneficiary Contribution

Table 4.9: Distribution of Projects by the Extent of Finance Expected from Banks, Voluntary Contribution and Beneficiary Contribution.

% of Bank Finance + Voluntary Contribution & Beneficiary Contribution in Total Outlay	Number of Projects Formulated	Average % of Institutional Finance + Voluntary and Beneficiary Contribution	Proportion of Projects Actually Undertaken	
			Number	% Under taken
0 - 25	4	13.66	1	5.0
25 - 40	8	19.71	1	12.50
40 - 50	7	35.28	2	28.57
Above 50	64	85.43	16	25.0
Total	83	74.29	20	25.0

Source : *Primary Survey 2000.*

Table 4.9 gives the distribution of projects by the category of extent of finance expected from banks, voluntary contribution and beneficiary contribution. It shows tat about 25 percentage of projects that expected more than 50 percent of the finance from these 3 categories. It means that with the increase in voluntary and beneficiary contribution the number of projects that were actually undertaken is increasing. Thus non-realisation of voluntary and beneficiary contribution is also an important factor, whether or not a project could be undertaken.

Table 4.10: The Financing Pattern of Projects Undertaken During the absence of Institutional Credit

Panchayat	Project		GIA (in per cent)	Credit from Financial Institutions (in per cent)	VC + BC (in per cent	Total Outlay (in Lakhs)
Cherunniyoor	One Cow for One House Programme	Exp.	7.0	90.82	-	5.87
		Real.	76.32	0	-	0.54
	Integrated Paddy Development Program	Exp.	46.86	40.73	12.40	6.87
		Real.	100.0	0	0	3.22
Vettoor	Comprehensive Coconut Cultivation	Exp.	19.44	69.44	11.11	7.20
		Real.	63.63		36.36	2.20
	Drainage	Exp.	93.75	6.25	-	0.06
		Real.	100.0	0	-	0.06
	One Cow for One House Programme	Exp.	32.80	64.60	2.58	1.52
		Real.	49.01	0	50.98	2.04
	Wells for Small Farmers	Exp.	41.66	15.62	42.70	1.92
		Real.	41.66	0	58.33	1.80
	Goat Farming (1)	Exp.	41.66	41.66	16.66	0.72
		Real.	73.52	0	26.47	0.40
	Goat Farming (2)	Exp.	41.66	41.66	16.66	0.06
		Real.	41.66	0	58.33	0.06
Karakulum	One Cow for One House Programe	Exp.	6.43	93.56	0	13.36
		Real.	53.61	0	46.38	2.26
Kalliyoor	Integrated Agricultul Development Programme	Exp.	48.35	14.22	28.29	16.50
		Real.	55.02	0	8.48	10.14
	Goat Farming	Exp.	14.28	75.0	10.0	6.30
		Real.	9.09	0	9.09	3.30
Kadakampally	Comprehensive Coconut Development	Exp.	65.62	4.7	29.6	8.59
		Real.	64.59	0	36.90	6.77
Chirayinkil	Distribution of Working Implements for Fisherman	Exp.	11.36	45.45	20.45	4.40
		Real.	100.0	0	0	0.51
	Distibution of Two Wheelers & Bicycles for Fisherman	Exp.	31.70	58.53	9.75	2.05
		Real.	100.0	0	0	0.64
Kudappanakku nnu	Comprehensive Coconut Development Programme	Exp.	57.45	5.90	36.64	3.80

Table Continued…

		Real.	100.0	0	0	2.90
	Poultry Farming	Exp.	27.57	55.14	26.47	2.72
		Real.	32.66	0	63.70	1.37
	Egger Nursery	Exp.	24.01	60.89	15.09	0.29
		Real.	100.0	-	-	0.07
Nemom	Integrated Agricultural Land Development	Exp.	48.34	15.37	36.28	28.52
		Real.	100.0	0		8.47
	Integrated Paddy Cultivation Programme	Exp.	8.32	9.42	73.66	36.23
		Real.	100.0			3.01
	Houses for Marginalised groups Who Posses Own Lands	Exp.	20.09	32.96	8.58	10.95
		Real.	66.66	33.33	0	3.30

Source : *Primary Survey, 2000*

Note : GIA: *Grant-in-aid*

VC : *Voluntary Contribution*

BC: *Beneficiary Contribution*

Exp: Expected Credit

Real: Realised Credit

Table 4.10. shows that out of 20 projects, which were undertaken, for 8 projects the realisation of voluntary and beneficiary contribution together was zero. For 2 projects there was no expectation under these categories. It is also seen that for these 20 projects the expected institutional credit is significant and realisation of these amounts is zero. These projects were actually undertaken mainly with the help of government grant in aid with reduced scope for employment creation income generation and number of beneficiaries. For e.g., in Nemom panchayat a project was formulated with the expectation about 90.82 percent of the total outlay from financial institutions. The project envisaged a distribution of 65 cows for 65 household beneficiaries. Since the institutional credit was not realised the project was undertaken only with a distribution of 11 cows. For this project the expectation of beneficiary and voluntary contribution was zero.

The data shows that over estimation and non-realisation of voluntary and beneficiary contribution aggravated the problem for successful implementation of the projects during the absence of institutional credit.

Section III

Factors Responsible for Non-realisation of the Expected Credit Linkage

What are the factors responsible for the non-realisation of the credit linkage incorporated into the local plans formulated under the People's Planning Campaign? During our field survey we held in depth discussions with both panchayat officials as well as managers of the bank branches. Evidently, the poor outcome of credit linkage was not the result of any shortage of bank credit. The declining credit deposit ratio in the state has been a matter of serious concern among policy makers and the public. The official explanation of the banks has been that there is a dearth of viable projects in the state and therefore lack of demand rather than supply is the real culprit (Rambabu, 1995). Given this situation question that arises is that why the demand for credit for the local projects could not be met.

The explanations provided by the bankers may be grouped into three types: The first is related to the lack of synchronisation between preparations of the SAA credit plans and the development plans of the local bodies. There are well laid down procedures and time frame for preparing the SAA credit plans. In contrast, the decentralised development planning was a novel experiment during the first year (1997-98). The local development plans were ready only for September-October and in the second year (1998-99) only by July-August. By then the credit plans had been finalised and there fore the projects in the local plans could not find a place in the official credit plans like other official government programmes like Integrated Rural Development Programme (IRDP).

The second sets of explanations are related to the viability of the projects included in the local plans. The banker suspect that the Peoples Plan Campaign is populist programme and that they are being forced into the new version discredited erstwhile `loan melas' of the 1980s. Most of the projects, they alleged did not confirm to the acceptable financing pattern or norms.

It was reported by the bank officials that the panchayats are bothered only about the possibility of getting credit and not about the credibility of the borrowers. According to them this is a major problem since there is no mechanism by the panchayats to ensure the repayment of credit under the decentralised planning programme. The bank officials are also having certain inhibitions in the process of selection of beneficiaries.

The third sets of issues are related to legal framework of lending to the local self-governments. With respect to centrally sponsored programmes like IRDP a uniform pattern of subsidy, loan component and procedures of application, processing and approval existed as part of the scheme itself. However, no similar rules had been drawn up for the projects prepared under Peoples Planning Campaign. Rules had not yet been framed for lending to the local bodies even though provision for the name existed in the Act. According to the banks the duration of the projects a year is too short. There are no credit camps on special arrangements for discussing the problems related to the credibility of the beneficiaries and to choose prospective beneficiaries from the list of beneficiaries under the projects for decentralised planning. List of beneficiaries selected by the panchayats was not made available to the banks till the fag end of the year.

State Planning Board (SPB), the nodal governmental agency for implementing the decentralisation programme, has taken serious exception to the attitude of the Banks. The decentralised planning process would take a few years to stabilise and until then it was inevitable that there would be delays in finalisation of the local plans and lack of synchronisation with the credit planning process. But nothing stood in the way of banks to dovetail their approved credit plans to accommodate the proposals included in the local development plans. After all, the allocations in the credit plan were not according to individual projects, but by broad sectors. All that was required was to accord priority for applications related to projects included in the local plans. The following clarification issued by the Planning Board Vice Chairman through a public statement sums up the position taken by the SPB:

The banks were never asked to finance People's Planing programme. The Government, having decided to allocate 35-40 per cent of the State plan to the local bodies, only sought the co-operation of the bank management to allow their officials to participate in the preparation of projects and formulation of plan by local bodies. It was of course hoped that in the process the local bodies will be able to come up with projects and schemes which will be financial viable and therefore qualify for bank credit. At the present stage, the People's Campaign does not envisage banks financing projects and programmes being directly implemented by the Local Bodies, as was alleged in certain quarters. Bank credit linkage was sought for commercially viable projects taken up by the beneficiaries of the People's Plans.

Banks refused to accept any social responsibility of participating in the Statutory Expert Committees constituted by the State Government to ensure that the projects formulated by the Local Bodies are financially and technically sound and also to make sure that the projects meet commercial credit norms. Unfortunately, the bank managements have held back almost totally, though several of the bank officials have, in their private capacity, been extremely helpful in the People's Planning Programme and we in the Board are indeed thankful to these officials. The co-operation sought from the bank managemets is not something novel, but a practice that is being followed in the implementation of various poverty alleviation programmes of the Central Government.

To compare People's Planning programme ` loan melas' is even more shocking and reflects the utter ignorance of the bankers, who reportedly rake up such comparison, of what is happening in this country. Are they aware of 73rd and 74th Amendments of the Constitution which enjoin upon the State Governments to devolve virtually all local level development to the local bodies?" (Statement of I. S. Gulati, dated 31-10-1998)

Participation in the Planning Process

The crucial failure lay in the refusal of the banks to involve themselves, in their professional capacity, in the decentralised planning process so as to integrate the two processes or introduce the necessary modifications in the annual credit plans so as to dovetail the credit plans to the credit requirements of the local plans. We enquired into the extent of participation of the bankers in the local planning process in our selected panchayats. Some of the observations are presented below.

Bank managements were of the big groups that had been officially informed and consulted by the State Planning Board before the decentralised planning programme was launched. But at the grass root level neither did the banks take initiative on their own for involving in the planning process nor did the panchayats go out to ensure their participation. Let us start with the participation in the gramasabha.

Table 4.11: Reasons for not inviting bank officials for the Grama Sabhas meetings in the year 1997-98.

Sl. No.	Reasons	No. of Panchayats
1	Time constraint faced by the panchayat	3
2	Unofficial involvement of bank officials in the plan campaign	5
3	No expectation of credit	2
4	Never felt any need for assessment of viability by the banks	2
Total		12

Source: *Primary survey, 2000*

In the survey all the panchayat officials admitted that they never invited the officials of financial institutions for attending the grama sabha meetings. 3 panchayat officials reported that the failure was due to the time constraints faced in the first year (1997-98). But the officials from the 5 panchayats emphasised that there was a misunderstanding about the participation of banks. The bank employees were active in the people's planning campaign at different levels as volunteers. As a result the panchayat officials never felt the need to ensure any official participation from the banks. Two panchayats never bothered to invite bank officials, since they never envisaged credit for any single project.

During the formulation of second year's (1998-99) plan, 6 panchayats formally invited the bank managers of all commercial banks in the panchayat for attending the gramasabha meetings. But it is disappointing to note that there was no participation from the part of commercial banks.

The sample of 14 financial institutions consists of four co-operative credit institutions. Nemom, Karakulam, Chirayinkil and Vettoor are the 4 panchayats expected credit from co - operative credit institutions. From the survey it is interesting to note that there was no interaction with co - operative credit institutions both in the years 1997-98 and 1998-99 while formulating the projects, which expected credit.

After the gramasabha meetings the next nodal point in the process of decentralised planning is the development seminars. And the development seminars, suggestions from the gramasabhas are collectively revealed and recommendations made regarding project proposals to be included in the local plans. In the 12 panchayats taken for our case study, not a single manager of local branches of commercial banks participated in the development seminar. In the first two years bank managers were not invited for the development seminar by any of the sample panchayat (1997-98 and 1998-99). However, some of the bank employees participated in the seminar in their private capacity. Total number of bank employees who attended the development seminars was 3 (in 2 panchayats) in 1997-98, and 7 (in 7 panchayats) in 1998-99.

The bank managers also did not participate in the task forces constituted by the panchayats to draw up projects as recommended by the development seminars. As in the case of development seminars some of the bank employees were members of the task forces in their private capacity. The total number of bank employees who were members of the task force committee was 7.

The Controversy and the Compromise

Lack of involvement of the bankers in the local planning process might have been partly due to lack of enthusiasm on the part of the local planners. However, this cannot be said about their refusal to participate in the expert committees. As we had explained in the last chapter expert committees consisting of officials and non-officials had been constituted at block and district level to examine the technical viability and financial feasibility of the projects before the district planning committee approves them. Not only did the bank managers refuse to officially participate in these committees but also discouraged the involvement of their employees. As a result, the matter became subject of public controversy. Below we are giving a brief quotation from one of many public statements that have been made on the issue during 1998-99.

The government having set up statutory committees of experts at local level and district level to ensure that the projects included in the Plan were technically feasible and financially viable, only requested that two or three bank officials in every block be deputed as members of the expert committees as part of their duty........The work in these committees would not have involved more than 10 to 15 days of work a year, which was almost equivalent to that of routine district/block level bankers' committee meetings. But the bank managements refused to co-operate with these statutory committees. Instead, they wanted to continue with their own exercises in formulating the district and block level credit plans without bothering to know the priorities and programmes of the local bodies. As a result, their credit plans had nothing to do with the reality and actual credit requirements of the people (Statement of V. S Achuthananthan, dated 4 November 1998).

The controversy made the panchayats sceptical about the co-operations from the banks and reluctant to approach the banks seeking assistance. The respondents from the sample panchayats were asked that whether they approached the banker directly or through the beneficiaries of the projects to obtain loan. It was found that from the 12 sample panchayats in 7 panchayats only, the panchayat authority approached the bank directly for the financial assistance. In 3 panchayats the beneficiaries of the respective projects in groups were sent to the banks.

Table.12: Approach for the credit from financial institutions

Sl.No.	Approach for credit	Number of Panchayats
1.	Panchayat themselves approached	7
2.	Asked the beneficiaries to approach banks	3
3.	No expectation of credit	2
Total		12

Source: *Primary Survey, 2000*

The Co-operative Sector

There was greater participation of the officials of the co-operative sector in the planning process. The office bearers of the co-operatives are mostly political and social activists and therefore it was natural that there was grater involvement from their part. 6 of our 12 sample panchayats had constituted a special task force for the co-operative sector in 1997-98. According to the guidelines for plan formulations for 1998-99 it was mandatory to have a separate task force. This procedure also contributed to greater involvement of the co-operative sector.

Even though there was greater participation in co-operative sector in the planning process, the quality of participation is an issue that required more detailed probing. Because the realisation of the expected co-operative credit was equally banned as that from the commercial banking sector. In our sample panchayats during the 1997-98 there were 4 projects with co-operative credit linkage. Yet as we have seen, not one of the projects received the expected credit. Seven of the projects were for starting new co-operative societies in animal husbandry, construction and industrial sectors. It was realised that the project proposals did not confirm to the norms fixed by the co-operative department. Further, the organisation of the new co-operatives proved to be too complex to be completed within the annual plan period itself. Therefore, all these projects had to be shelved. The other projects with co-operative credit linkages consisted of self-employment programmes. Some of the co-operative secretaries, with whom we discussed the issue, explained that the co-operatives were reluctant to finance them because of their bitter experience with IRDP loans. They alleged that in the past the co-operative sector was discriminatively burdened with relatively more unviable self-employment programme whose repayment record was poor.

There were also legal hurdles for mobilising resources from the co-operative sector. The primary co-operative could lead only to its members. The individual beneficiaries by the panchayats need not always be members of the co-operatives. Further, existing statutes did not permit the local bodies to subscribe the share capital of the co-operatives. The existing rules and guidelines of the co-operative departments did not envisage involvement of local bodies in the co-operative sector.

During 1998-99 SPB took initiative to start dialogue between the co-operators and the local planners. In every district conventions of panchayat presidents and presidents of co-operatives were convened to discuss an approach paper jointly prepared by SPB and Co-operative Union. The approach paper mapped out the possible ways that the co-operatives can help the local plans. Every grama panchayat has at least one multipurpose credit co-operatives that can undertake any service such as marketing or renting equipment apart from the saving and credit operations. Instead of starting new agencies to administer agricultural services included in the plan, the panchayats could use the co-operative banks. The plan guidelines prohibited giving costly equipment to individuals. The equipment could be given only to service co-operative banks or farmers collectives. Animal husbandry projects were to be linked to the existing milk co-operatives. Similarly the existing co-operatives could be used as implementation agencies for the projects of the local bodies. This would also facilitate greater integration of the resources of the co-operatives with the plan programmes.

Inclusion of a project in a plan did not mandate the co-operative to give credit since that involved a professional judgement about the viability of the loan. Unlike the private banks, the co-operatives would make this professional judgement in the planning stage. The task force on co-operatives should closely scrutinise the proposals being drawn up by the sectoral task forces and should make suggestions for modifications if necessary in order to ensure greater linkage of these projects to the co-operative sector. Thus co-operatives can extent credit to beneficiaries of the projects included in the local plans.

The co-operatives can also provide institutional finance to the local body for implementing selected remunerative projects. The new panchayati raj law permitted local bodies to take loans on the security of the assets those loans would create. So far, only rural or urban development finance corporations have supplied loans to local bodies. In the future, co-operatives can contribute to commercially viable projects.

The co-operatives could give grant-in-aid to revitalise potentially viable co-operatives and improve the facilities. The approach paper emphasized that such financial help should not be a general grant-in-aid but for specific purposes for which an appropriate project is drawn up. The co-operatives were to be given preference as places for holding the project accounts.

The proposals met with general approval in the conventions. Instances of demand for total autonomy for the co-operatives and primacy of member interest were rare. Even more rare was the demand for the right of local to control the co-operatives. A committee was constituted to make suggestions for changes in the law and co-operative rules to facilitate the co-ordination between local planning and the co-operative structure.

Conclusion

By way of conclusion we shall refer to certain positive recent developments related to mobilisation of additional resources for the local plans from the financial institutions. Nearly three years after the decentralisation process was initiated some concrete steps have been taken to link the credit planning process with local level development planning. A number of formal and informal consultations were made with the State Level Bankers' Committee (SLBC) to discuss the issue. Intervention by the RBI was also sought by the SPB. In May

1999, while the preparations for the third annual plans of the local bodies were going on certain modalities were agreed upon for greater integration of the district credit plans. (Minutes of the *meeting on Providing Credit Linkage to Decentralised Plan Schemes Prepared by Grama panchayats and Urban Local Bodies*, dated 3 May 1999)

As part of the decentralisation process, implementation of the centrally sponsored programmes like IRDP and SJSRY, which are part of priority sector lending and an important component of the district credit plan were transferred to the local bodies for implementation. This created and anomalous situation where the centrally sponsored schemes have proper credit linkage whereas similar programmes prepared by the local bodies for self-employment are largely subsidy dependent. There was a general agreement in the SLBC that it was necessary to prescribe modalities for arranging credit linkages to feasible and viable schemes of the local bodies, which satisfy the norms for lending to economically weaker sections in priority sectors.

However, since the credit plan for 1999-2000 had already been prepared up their credit plans with the block as the unit, the bankers agreed to dovetail these with the schemes sponsored up by the local bodies using the block as the nodal point. The banks would accept all schemes under the accepted pattern of funding/subsidy. It was also clarified that for existing loan pattern and limits of financing, since the branch manager had the power to sanction applications, no reference to a higher formation was required. For schemes under any new patterns submitted by the local bodies, they would have to consult their higher officers.

In order to facilitate the process district level conferences of bankers and the panchayat representatives was to convened. Senior officers of the district could also participate in these meetings. Areas of promise for self-employment activities (individual and group) would be discussed and the criteria of viability explained.

A common format for application would be designed in consultation with local administration and planning departments and lead bank. This would then be circulated to the local bodies. The mode of release of subsidy to banks for schemes where credit linkages had been tied up would be the same as for IRDP. The above decisions though fell far short of integration of the procedures for credit planning with local level development planning was definitely a step forward.

Bolder initiatives have been forthcoming from the co-operative sector. It has been decided to form consortium of leading co-operative banks, district co-operative banks and state co-operative bank to provide finance to major developmental project undertaken by the local bodies. One of such efforts has already been fulfilled. In 1999-2000 the Thiruvananthapuram district panchayat in collaboration with all the local bodies in Thiruvananthapuram district has undertaken a total housing programme. A major part of which is to be financed by the loans from the state co-operative banks. In 1999-2000 alone these state co-operative banks provide the credit of 85 crores of rupees. The state co-operative banks intended to expand the schemes to cover the entire states in the coming years. The state co-operative bank is mobilising concessional housing finance from foreign aid agencies and national housing agencies. The principle of the loan given to the local bodies is to be re cooked from fixed deposit investment made by the local bodies in high interest bearing instruments at the end of the period of 11 in 13 years. The local bodies would make the annual interest payment on the loans during this period from their current revenue or thrift collected from the beneficiaries.

Another important development related to co-operative sector has been the scheme by the co-operative department to have self-reliance groups of neighbouring farmers attached to the credit co-operatives. They are encouraged to undertake group-farming activities. Co-operatives would provide the credit. The local bodies have given the permission to subsidise the interest payments on these loans provided they are used to implement projects that are included in the local plans. It is expected that a scheme would facilitate greater inflow of co-operative credit into the agricultural sector.

Yet another important development has been the growth of Self-Help Groups (SHGs). In the 12 panchayats surveyed there is hardly any linkage with SHGs. Formation of SHGs is an innovative modality, which will help to reduce transaction costs and will ensure better repayment performance (Majumdar, 1999). Individually, a poor person tends to be rather tentative, uncertain in his behaviour but group membership smoothens the rough edges of his behaviour pattern, making him more reliable as a borrower. A poor person feels exposed to all kinds of hazards; he requires guidance and advice from people he knows and can trust. Membership in a group gives him a feeling of protection. Thus, formation of a group would ensure the better participation of the poor in a credit programme (Karmakar, 1999). A conscious attempt is being made to integrate the SHGs, neighbourhood groups and financial institutions as a strategy for mobilising credit for rural development. This scope is more in the decentralised planning programme where the plan priorities are determining by the people themselves through the grama sabha meetings.

Even before the decentralised planning campaign was started, there existed SHGs of women from households below poverty line in urban areas known by the name community development societies. The funds for urban poverty alleviation programme were rooted through these groups. The group members made regular thrift collections and on the basis of their savings took bank credit to provide loans for the various needs of the members and to start micro enterprises. The decentralised planning campaign has given an impetus for the formation of SHGs and Neighbour Hood Groups (NHGs) in the rural areas (Isaac, 2000). State government has already prepared a scheme known as '*Kudumba Sree*' to cover the entire state with SHGs of women. As we noted in chapter 2 all loans to the SHGs are considered as part of the priority sector linking irrespective of the purpose of the loans. Micro credit through self help groups is being promoted in a major way by NABARD all over India. Thus the rapid expansion of SHGs would resulted better integration of institutional credit facilities with the local level planning.

Chapter 5

SUMMARY AND CONCLUSIONS

The problem under study is the apparent lack of integration between credit planning and development planning under the decentralised planning Programme. The study assumes added relevance and importance since the local bodies in Kerala have to give up their projects if adequate financial resources are not forthcoming. The analysis of the problem has involved three steps. First, we critically examined the methodology of preparation of credit plans. Secondly, we have discussed the process of plan formulation under decentralised planning, financing pattern of these plans and the credit linkages for these plans for the first two years 1997-98 and 1998-99 of the programme. Finally, to closely understand the processes surrounding the weak credit linkage, we sought to analyse the problem with the limited primary data we have acquired from panchayats and financial institutions. For the analysis of credit linkages under decentralised planning we used the data available from State Planning Board on local plans and credit expectation under potential linked credit plans by NABARD and so on. This chapter presents the findings of our study and their implications for the important socio - politico initiative of decentralised planning programme in Kerala.

In Chapter 2 we examined the methodology of preparation of credit planning. Analysis showed that the credit plans formulated under the various district credit plans and lead bank scheme, were not uniform with respect to coverage methodology or period. It is seen that a major constraint upon the preparation of realistic service area credit plan is the inadequacy of local level socio -economic data. It is noted that credit plans prepared are trend -oriented, primarily based on the past experience and overall impressions and perceptions of the bank managers. The individual service area plans are not really based on the development plans at the panchayat level. Rather it is based on broad estimates received from different developmental agencies.

The Service Area Approach envisaged credit planning from the village up- wards which should be compatible with contemplated devolution of developmental responsibilities to local bodies and the new stress on area planning at district and block level to improve the quality of lending and ensure its linkage with production and productivity. The way out is to integrate the credit planning with the economic activities formulated in the development plans by the government departments besides the mandatory lending programmes like IRDP. Greater coordination between credit agencies and the governments at various levels like panchayat, block and district to improve the efficiency of the existing system of credit planning will give better understanding of the viability aspect of the projects by the banks.

In Chapter 3 we analysed the credit linkages for the local plans under the decentralised planning programme. From the analysis of expected contribution from the co-operative banks and the commercial banks, it is seen that even if the share of credit as a percentage of total outlay is relatively small (12.15 per cent) in the total out lay, the realisation of these resources from financial institutions in terms of credit is very essential for the successful implementation of the development plans by the local bodies. In spite of the wide network of primary credit societies covering all the panchayats in Kerala, there was no concerted attempt to tap this source of finance. In the case of credit expectation we can see significant inter-tier differences. The grama panchayats and district panchayats have the lowest credit linkage. In the case of grama panchayats plans there is a sharp decline in the share of credit in the plan outlay from 8.87 per cent in 1997-98 to 2.24 per cent in 1998-99.

Our study on the inter-district variation in the composition of credit linkages of plans also shows significant differences. The expected shares of financial institutions in local plans have sharply declined in Thiruvananthapuram, Kollam, Eranakulam and Wayanad during the period of analysis. Similarly, inter-sectoral variations are also significant in credit expectation. The expected credit linkage was relatively higher in the material product sector when compared to service and infrastructure projects. For the year 1998-99 the share of expected credit was the highest in the service sector compared to Special Component Plan (SCP) and Tribal Sub Complement Plan (TSP), the credit ration is high in the general sector plans. However, in the year 1997-98, the credit ratio in the women component plan was surprisingly at 21.91 per cent, but it was reduced to 6.26 per cent in the subsequent year.

Across all the sectors credit linkage for small-scale industries was very prominent. Among crops, the garden crops have greater credit linkage than paddy. Animal Husbandry is another sector with significant expectation of institutional credit. Another feature is the significant difference in the pattern of sectoral distribution of credit between the co - operative banks and commercial banks. Co-operative credit inflow is expected generally for development of infrastructure such as roads, bus stands, marketing complexes and so on, while from commercial banks expectation of credit is mainly for the material production sectors.

In spite of significant credit linkages, our analysis showed that the realisation of credit from financial institutions was far from satisfactory. In all districts the share of both co-operatives and commercial banks in the final expenditure of the local bodies is significantly lower than in the expected share in the approved plans. In other words the divergence between expectations and realisations of institutional credit was very sharp.

In order to study the factors responsible for this sharp divergence a primary survey was conducted. Our analysis in Chapter 4 was based on both quantitative information and also in depth discussions with officials from panchayats and financial institutions. Details were also collected for the projects having credit linkages in the first two years.

It is significant that out of 83 projects in the first two years 1997-98 and 1998-99, not a single project could get credit from financial institutions. This had an adverse effect on the plans, and as result a total of 63 projects had to be given up by the panchayats. All the 20 projects that were actually implemented had to be undertaken with a much smaller outlay as compared to what was originally planned. As a result these projects had to be undertaken with the reduced scope in terms of employment, income generation and number of beneficiaries. For these projects also there was not credit realisation.

There are three factors, which determined whether or not a project could be undertaken despite the non- availability of institutional credit. First, the extent of finance expected from banks. This is clear from the analysis that the projects for which more than 50 percent of the finance was expected from the banks, only about 25 per cent could be undertaken. Secondly, the divisibility of the projects is another important factor that determinants the ability of the project to be undertaken. Thirdly, over estimation and non-realisation of voluntary and beneficiary contribution aggravated the problem for successful implementation of the projects during the absents of institutional credit.

The factors responsible for non-realisation of expected credit linkages can be grouped into three. The first one is lack of integration between preparation service area credit plans and the development plans of the local bodies. Secondly, the bankers suspect that peoples plan campaign to be a populist programme and that they are being forced into the new version of the discredited, erstwhile *loan melas* of the 1980s. The bankers alleged that most of the projects did not confirm to the acceptable financing pattern or norms. Thirdly, no legal framework of lending to the local self-governments, as in the case of centrally sponsored programmes like IRDP; a uniform pattern of subsidy loan component and procedures of application, processing and approval existed as a part of the scheme itself. Rules had not yet been framed for lending to the local bodies even though a provision existed in the Panchati Raj Act.

It is clear that the extent of participation of the bankers was very limited. The panchayat officials expressed various reasons like time constraints, unofficial involvement of bank officials in the plan campaign and so on for not inviting the bank officials for the Grama Sabhas. However, the major reason was the bank employees' participation in the peoples planning campaign at different levels as volunteers. As a result the panchayat officials never felt the need to ensure any official participation from the banks. Thus the lack of involvement of the bankers in the local planning process is partly due to a lack of enthusiasm on the part of the local planners. At the same time the bank managers also refused to officially participate in the expert committees to examine the technical viability and financial feasibility of the projects before the district planning committee approved them.

In spite of some concrete steps that have been taken to link the credit planning with local level development planning, till now there was no improvement in this direction. A number of formal and informal consultations were made with the state level bankers committee (SLBC) to discuss the issue. The intervention by the RBI was also sought by the State Planning Board. It is high time that the credit plans were integrated with local level development plans for the successful implementation of the development projects under decentralised planning Programme. Preparing credit plans in isolation and without proper integration with the development plans formulated at the grass root level other wise could be counter productive. It is absolutely necessary; therefore, to specify the respective roles and collaborative arrangements for integrating the credit plans with the development plans under decentralised planning programme. The decentralisation of the credit planning system through the Panchayat or Village Credit Planning (VCP) could be a better and well-orchestrated option for the effective grass root level implementation of development projects under decentralised planning in Kerala.

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