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Credit Planning as a Rural Finance Initiative in India: An Overview

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Abstract

Banking system acts as a conduit for transfer of financial resources from net savers to net borrowers and plays a key role in mobilization and allocation of domestic savings. In a resource-scarce country like India, balanced development of the economy necessitates speedier and heftier transfer of financial resources to the sectors relatively more starved of the same. Hence the need to align the rural financial system to the developmental goals of the country through an effective process of credit planning. The paper traces the evolution of credit planning as a rural finance initiative in India, discusses various inadequacies still affecting the process and offers suggestions for addressing the issues related to these inadequacies. It concludes that efficacy of the system hinges critically on effective co-ordination among all stakeholders in the development process including notably the lending institutions, the government and the civil society.

Keywords: Backward and forward linkage, Banking system, Decentralization of planning, District credit plans, Financial intermediation, Lead bank scheme, Potential-linked plans, Recovery performance, Rural financial market, Service area approach.

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Introduction

Banking system acts as a conduit for the transfer of financial resources from net savers to net borrowers and plays a key role in mobilization and allocation of domestic savings. In an economy characterized by an overall constraint of resources, the government and the private corporate business are generally in financial *deficit*, which in accordance with the flow of funds terminology refers to a situation where the claims issued by these sectors exceed the claims acquired by them.

Imperatives of sustained economic development call for investment of resources of a gradually higher order by the government as well as the private corporate business in spite of their *deficit* status. This makes it incumbent on them to complement their investment capacity through borrowings from the third sector of the economy, namely, the households. Such borrowings from the household sector however are invariably effected through intermediation done by the banking system.

Gains to the real sector, which are manifested in the levels of development registered by the economy, are therefore dependent much on the efficiency with which the financial sector discharges its function of intermediation (Rangarajan and Jadhav 1992). By the same token, the patterns and kinds of development (of an economy) would depend *inter alia* upon whether or not the financial system is attuned to the developmental goals of that economy.

In India the role of financial intermediation in economic development was unambiguously articulated at the very beginning of its planning process. To quote from the First Five Year Plan (GOI 1952: pp 38-9):

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> "Central banking system in a planned economy can hardly be confined to the regulation of the overall supply of credit or to somewhat negative regulation of the flow of bank credit. It would have to take on a direct and active role, firstly, in creating or helping to create the machinery needed for financing developmental activities all over the country, and, secondly, in ensuring that the finance available flows in the directions intended……The proper discharge of its functions by the banking system will necessitate its operation more and more in the light of the priorities for development indicated in the Plan and less and less in terms of returns on capital."

The desirability of aligning the financial system to the developmental goals has been recognized as more urgent in case of the rural sector, not only because this sector in India has historically received flows of investible resources on a considerably lower scale, but also because poverty in this sector has always been more pronounced. It is interesting to note that the situation around the world is no different. To quote Klonner & Oldiges (2019) "poverty around the world is concentrated in rural areas" (Klonner & Oldiges 2019: p3). It is also observed that poverty alleviation programmes in most countries of the world have involved, among other measures, *subsidized credit* and *directed lending* (Klonner & Oldiges 2019). No wonder, public policies on banking and financial sector development pursued in India after Independence were influenced largely by the need for promoting financial intermediation via building institutions, expanding their geographical spread, mobilizing savings and inducing better spatial and functional reach of institutional credit across the country with particular reference to the relatively less developed rural regions (RBI 1981, Ramachandran & Swaminathan 2005, Shetty 2005). The need for a planned approach to allocation of credit for the socially desirable sectors of an economy has been emphasized on the international plane too, particularly in the context of the Asian countries (see The World Bank 1993, Shetty 1997, Stiglitz 1999 and Williamson 2000).

Challenges of Rural Financial Intermediation

Orienting the rural financial market (RFM) to the goals of development is acknowledged as a difficult task. That is so because it can hardly be achieved without addressing the challenges which the RFM typically faces. Studies indicate that these challenges arise out of a variety of factors (including notably the following) which usually characterize the rural sector (Yaron *et al.* 1997):

- Low density of population and high marginal propensity to consume (MPC) resulting in low level of household savings and small size of average loans, which in turn contribute to high transaction cost,
- Absence of traditional forms of collateral required by commercial banks,
- Seasonality of rural agricultural business cycle and the high probability of co-variant production price and income shocks adding to the risks of financial intermediation; and
- Inadequate communication and lack of integration with other markets leading to information barriers and limited scope for risk diversification.

Attempts at Addressing the RFM Challenge through Institutionalization of the System

A process of institutionalization of the rural finance system was embarked upon in India over a century ago for meeting the challenges of RFM, so as finally to align it to the objectives of development. It practically began with the disbursement of taccavi loans by the native Governments at times of natural calamities (under Taccavi Acts, 1871-79) and was continued with enactment of the Land Improvement Loans Act, 1871, empowering the local governments to advance long term loans to the farmers for improvement of land from State funds. It was followed by the introduction of the Co-operative Societies Act of 1904 in terms of which village agricultural co-operative credit societies were formed.

The process of institutionalization was reinforced by the introduction of the so called Integrated Scheme of Rural Credit (ISRC) in 1954 in pursuance of the recommendation of the Committee of Direction on the All India Rural Credit Survey (AIRCS). The ISRC heralded the era of partnership between the government and co-operative credit institutions through contribution by the former to the equity capital of these institutions. It also led to the conversion of the erstwhile Imperial Bank of India (which was then in the private sector) into the public sector State Bank of India by an Act in 1955, facilitating the association of the largest commercial Bank in the country with rural credit operations (RBI 1954). Most of the policy initiatives launched in India after the 1950s vis-à-vis rural financial system were

inspired by the Committee of Direction's report on AIRCS (Dandekar 1993).

Areas of Continuing Concern– Need for Credit Planning

The government's successful measures both before and after Independence facilitated the process of institutionalization and regulation of the rural financial market to some extent. However, the system continued to be dominated by the informal sector characterized largely by the same old medieval/exploitative features on both supply and demand sides of the credit equation.

Supply Side

Lendings were made with the predominant intention to attain super normal profits based on usurious rates of interest. These were predominantly security-oriented, and the purpose for which credit was demanded was hardly a consideration. The All India Rural Credit Review Committee (AIRCRC), 1969, observed that the ultimate object in supplying credit by the moneylenders was apparently to grab the assets – moveable or immoveable – furnished as security by the borrowers. Thus, the moneylenders amassed considerable wealth, which was in effect either the agricultural surplus or funds created out of disinvestment of assets related to agriculture (RBI 1969a).

Demand Side

Demand for credit in the rural areas arose largely for meeting the borrowers' consumption requirements and not for carrying out any production activities. Demand for credit on investment account was insignificant in as much as the use of capital in Indian agriculture was nominal (Gurdev Singh and Asokan 1988). Chemical fertilizers were almost unknown till the middle of the 1960s, and the indigenous sources of nutrients involved hardly any cost. Plows, bullocks, bullock carts and a few crude implements were the only fixed assets needed. Big farmers and landlords could, after all, manage all these from their own resources. Only a modest part of the demand for credit on this account originated from the small farmers. Investment activities like renovation of land and dredging of ponds carried out occasionally by the small farmers were made almost exclusively with their own and family labour. Studies indicate that the major component of overall credit demand on investment account emanated largely for the purpose of purchasing land by bigger landholders from the poor peasants, hence generating hardly any multiplier-accelerator effect.

The Net Outcome

The vast mass of rural borrowers devoid of basic economic sense and bereft of general education thus remained invariably bound to a 'debt trap.' The major part of their income continued to be taken away by moneylenders through the mechanism of 'pseudo repayment' of their perpetual debt. A low level of agricultural productivity added with the requirement for payment of interest at an enormously high rate generated a negative surplus for most Indian farmers, which made them approach the moneylenders again and again (Ghatak 1976). To quote the National Agricultural Commission (1976), "innumerable people are born in debt and they die in debt passing on their burden to those who follow". Much of the indebtedness in India's countryside was thus ancestral.

In other words, some degree of institutionalization of the Indian rural finance system achieved through the measures taken towards this end notwithstanding, the rural financial market (RFM) did not contribute positively to the growth and development of Indian agriculture and activities allied to it. Rather it had a disquieting effect insofar as it encouraged disinvestment of agricultural assets, funds generated out of which were mostly spent extravagantly (by the moneylenders) in luxurious consumption.

It was thus recognized at the policy level that alignment of the financial system to the development planning exercise, which aimed at economic growth combined with equitable distribution of the fruits of such growth, could hardly be achieved without a conscious introduction of a process of credit planning into the system.

There are many finance sources for sustaining the process of formulation and implementation of development plans at the levels of district and sub-district units. The major among these sources are (a) revenues mobilized by the local self-government institutions, (b) funds received from the state government, and (c) the resources allotted under centrally sponsored schemes of employment generation and poverty alleviation. Quite a few of these centrally sponsored schemes including, notably, the Integrated Rural Development Programme (IRDP), restructured as Swarnjayanti Gram Swarozgar Yojana (SGSY) and finally as National Rural Livelihood Mission (NRLM), the Self Employment Programme for the Urban Poor (SEPUP), modified as the Swarna Jayanti Shahari Rozgar Yojana (SJSRY) and subsequently restructured as the National Urban Livelihood Mission (NULM), the Prime Minister's Rozgar Yojana (PMRY)

subsequently restructured as the Prime Minister's Employment Generation Programme (PMEGP) and the Scheme of Liberation and Rehabilitation of Scavengers (SLRS), restructured as the Scheme for Rehabilitation of Manual Scavengers (SRMS) consist of a significant component of institutional credit. Therefore, it is in the fitness of things that bank credit is recognized as yet another major source of funds besides a, b, and c above, utilized for achieving the goals of the national development endeavor. With a pronounced increase in the emphasis on Programmes launched for a generation of employment and alleviation of poverty, the success of which hinges critically on the flow of credit extended by the banking system under such programmes, credit plans have become important arms of the development planning exercise at district and sub-district levels (Nanjundappa 1991).

Evolution of Credit Planning in India

The Origin

A systematic approach to credit planning for the rural sector was for the first time conceived under the Lead Bank Scheme (LBS), introduced by the Reserve Bank of India (RBI) in December 1969 following the recommendation of the "Study Group on Organisational Framework for Implementation of Social Objectives" (better known as Gadgil Study Group). The Study Group identified serious gaps (both spatial and functional) in banking development, and recommended adopting an area approach to banking for bridging these gaps (RBI 1969b). It was suggested that a system be evolved whereby commercial banks, particularly those in the public sector, could be entrusted with the responsibility of 'leading' the process of extending banking facilities in specified geographical areas, say, districts.

Lead banks were advised to formulate comprehensively drawn-up District Credit Plans (DCPs), which were to be implemented by banks operating in the respective districts. District credit planning was preceded by a massive expansion of bank branches, particularly in the relatively backward rural and semi-urban areas, so that the necessary framework required for implementing the credit plans could be put in place in hitherto neglected pockets.

Four Rounds of Credit Planning under LBS

The first round of District Credit Plans (DCPs), which were expected to provide a blueprint of action on the part of the banking institutions for subserving the objectives laid down under the 5 years plans, were prepared by the lead banks for their respective 'lead' districts during 1976-79. Targets for disbursement of credit for different viable sectors/activities in the district were set out in a DCP, which were reallocated among banks operating in that district, on the basis, among other things, of branch network and financial resource-base of the latter.

Three subsequent rounds of credit plans and a few independent annual plans were formulated and implemented till March 1989. These plans covered the following periods:

2nd round of DCPs: January 1980 - December 1982
3rd round of DCPs: January 1983 – December 1984
Annual Plans: Calendar years 1985, 1986 and 1987
4th round of DCPs: January 1988 – March 1989

Decentralization of the Credit Planning Process from April 1989

Following the policy announcement made by the Union Finance Minister in his Budget Speech for 1989-90, the concept of 'Service Area Approach (SAA)' to rural lending was introduced by RBI in April 1989.

Under this approach, several villages were allocated to each of the rural and semi-urban branches of scheduled commercial banks, including Regional Rural Banks (RRBs). The villages assigned to a branch constitute the *Service Area* of the Branch. According to the new dispensation put in place under SAA, each rural/semi-urban bank branch was required to prepare a credit plan separately for each of the villages allotted to it. Such village-wise credit plans were expected to be consolidated into Branch (Service Area) Credit Plans. The credit plans thus arrived at the branch-level were aggregated into Block Credit Plans (BCPs) which, in turn, were summed up to form the District Credit Plan (DCP).

The entire credit planning exercise under SAA was thus expected to be gone through in a bottom-up process, based on the socio-economic and agro-climatic status of the service areas of the respective bank branches. Like under the previous dispensation, credit plans prepared according to SAA were also expected to correspond with the development plans initiated by the government for the respective areas and the resource-base of the bank branches concerned.

It was recognized that while national, state or even district- level planning can be based on abstraction of field-level realities, planning at the grassroots (say village) - level has to be fully informed of the ground realities. While the macro-level planning sees the forests, grassroots-level planning has of necessity to

see the trees. In case of the latter each tree is important for the quality of the forest is ultimately determined by individual trees. It was generally felt that such decentralization in the matter of credit planning would help attain the objectives of the national planning exercise of reducing spatial and functional disparities in socio-economic development more effectively than hitherto.

Latest Development

In pursuance of the announcement made by the Governor, Reserve Bank of India in the course of a mid-term review of the annual policy statement of the Bank for the year 2004-05, the 'restrictive provisions' of the service area approach have been done away with (RBI 2004a, RBI 2004b). Accordingly, the allocation of villages among the rural and semi-urban banks of banks would not be applicable for these branches' lending operations except under the Government-sponsored schemes. While the commercial banks and RRBs would be free to lend in any rural and semi-urban areas, the borrowers would have the option of approaching any bank branch for meeting their credit requirement. In view of this, RBI has dispensed with the need for preparation of village credit plans by the bank branches.

The annual credit plans of bank branches would therefore now be based largely on the potential Linked Credit Plans (PLPs)[1] prepared by the National Bank for Agriculture and Rural Development (NABARD). The particulars of potential available in different sectors (as contained in the PLPs) would be communicated to bank branches by the Conveners of the respective Block Level Bankers' Committees (BLBCs). The branches would then formulate the Branch Credit Plans with reference, among other things, to the communications received from the Conveners of BLBCs referred to above (RBI 2004b).

Modality of Credit Planning

Concept of a Credit Plan

A credit plan, irrespective of whether it is prepared with reference to a district, a branch or a village, consists essentially of the finalization of credit disbursement targets for a set of what are known as *bankable* schemes/activities. A bankable scheme is one which is technically feasible and financially viable. By technical feasibility, one means that the economic activity under consideration can be implemented in a given area, with regard to the interrelationship between the resources and resultant production income possibilities relevant to that activity. All activities which are technically feasible in a given area may not be financially viable. A viable scheme is one where the aggregate income generated through operation of the scheme outweighs the cost incurred in implementing it. The surplus of income over cost should be of such a magnitude as to enable the borrower to repay the loan with interest from out of the surplus and set apart adequate amounts for elevating his standard of living and for reinvestment in the project when necessary.

Estimation of Credit Demand

Based on a comprehensive survey of their respective service areas and concerning the potential of different activities as communicated in PLPs, the bank branches are expected to develop an insight into the demand for credit likely to emanate from different sections of the community in such areas for pursuing diverse economic activities. It has been observed that the pattern represented in the Chart 1 corresponds closely to the ground reality of a typical Indian village. Therefore, bank branches more often than not take such a scenario into account for estimating the number of units (in physical terms) of various bankable activities that are expected to require credit support (RBI 1988).

The sum of units of any given economic activity represented by item numbers 1, 3, 4, and 6 above gives the total number of physical units of the activity which may require credit in a village. Through this process, the aggregate demand in physical terms is estimated for all possible activities having potential for development in the village. The demand for credit (on physical basis),

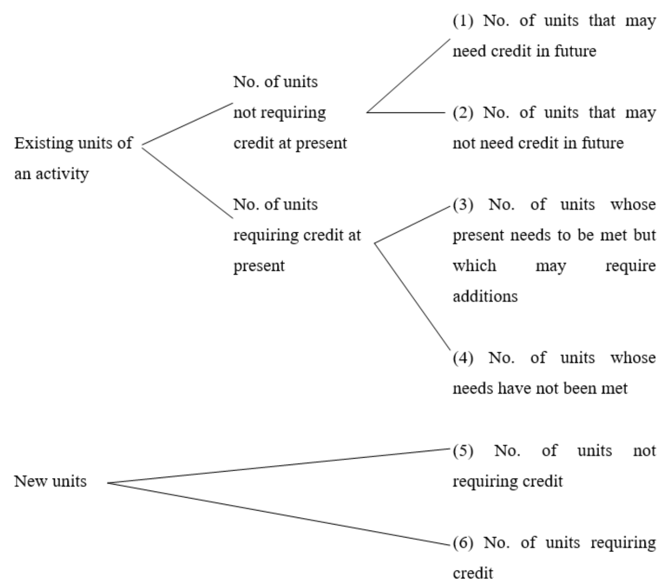

Chart 1: Estimation of Credit Demand in Physical Terms for a Given Economic Activity

measured in terms of a number of units, when multiplied by the scale of finance/unit cost of the respective activity, leads to the demand for credit in financial terms for that activity.

Assessment of the Supply Side

No planning exercise is complete with an appraisal of the demand side only. Targets fixed without reference to the availability (i.e. supply) of resources with the lending institutions concerned will be anything but realistic. As such, a credit planner after making a comprehensive assessment of the demand for credit expected to originate from an area under reference is required to balance the demand so estimated against the availability of financial and organizational resources with the institutions concerned so as to arrive at realistic activity/scheme-wise targets of credit disbursement, which would constitute the basic framework of the credit plan.

Insights Gained

Studies undertaken by the author across many states in the eastern, north-eastern, and western regions of the country indicate that the quality of plans prepared varied from area to area and from Bank to Bank within the same area. The credit planning exercise also appeared to suffer from a number of management and operational deficiencies and general infirmities. These inadequacies as revealed in the studies made by the author, some of which are enumerated below, affected the plans in different districts and across banks in varying degrees.

i. Inadequate appreciation by the credit planner of the area's socio-economic realities under reference has often led to the formulation of unrealistic plans having little correspondence with the credit needs of the area. In such cases plans were found to have been drawn up mechanically based on past trends only, though in reality trends do not continue unabated indefinitely. High demand for credit for the acquisition of shallow tube wells and pump sets registered in an area over a number of years, for instance, is only likely not to continue to be relevant after some time, as saturation is likely to be reached in this respect because of the limitations posed by the availability of groundwater. In such an event, there would rather be requirement in the subsequent years for service enterprises carrying out repairs of these items of irrigation equipment rather than for additional units of the said equipment.

ii. Another infirmity witnessed in the credit planning exercise was that instead of allocating targets separately for the various activities comprised in a broad sector like agriculture, industries or services, credit outlays were set broad sector-wise. No allocation was made, for instance, for production of a crop, investment in farm mechanization, minor irrigation or land development etc., all of which are comprised in the broad sector of agriculture and allied activities. Similarly, separate targets were not set for retail trade, small business, education or road/water transport operations comprised in the services sector. Instead, credit outlays were fixed for the services sector as a whole. Essential intra-sector details were thus missing, resulting in a plan which was anything but reflective of the ground-level realities.

iii. In most cases, credit plans were not seen to have been dovetailed with district development plans in as much as even a semblance of development planning (at district and sub-district levels) was found missing in most districts of the country. Post-Independence India adopted the path of planned economic development. However, for most part of the planning process, the country's economic policy was characterized by a centralized model. Studies indicate that India has not been an exception in this regard, for development initiatives in most countries have been observed to have followed a top-down approach rather than a multi-level planning model (Nanjundappa 1991). The move toward a decentralized and micro planning regimen in this country has been slow and tortuous.

Decentralization in the planning process was seriously attempted at the national level for the first time, though only in a rudimentary form, as a part of the Sixth Five Year Plan 1980-85. Subsequently, in the approach to 8th 5 years plan, decentralized planning was accepted as the major tool for achieving the development goals and a participatory process through transfer of both planning and implementation responsibilities to the local democratic institutions was emphasized. The approach paper expected that the process of democratic decentralization would be completed within the first year of the 8th plan. Shortly after the 8th 5 years plan's commencement came the 73rd and 74th Constitution Amendment Acts that accorded statutory sanction to the country's decentralized planning process. Notwithstanding these efforts, the system of development planning at district and sub-

district levels has not yet stabilized in most parts of the country as a result of which the desired integration of credit plans with development plans at the grassroots level is yet to be achieved across the board.

iv. In some cases where information on a few development Programmes was available (even though a systematic district development plan was not in existence), bank branches failed to capture the potential created by such development programmes, as a result of which the targets fixed in the credit plans prepared by them were less than realistic. Establishment of a chilling plant in the vicinity of a village or the plans for construction of roads linking the village to nearby towns/ market places, for instance, cannot but improve the potential for the development of a number of activities including, notably, dairy farming, leading, in turn, to an increased demand for credit for these activities. If not taken into account, such possibilities can only result in underestimating the overall demand for credit.

v. The studies also revealed that in a large number of cases the extent of financial resources (required to be assessed in terms of inflow of deposits and recycling of funds etc.) and organizational strength (needed to be measured in terms of complement of field staff and vehicular support etc.) which would be available with the lending institutions concerned was either not assessed at all or assessed in a perfunctory manner, as a result of which allocations made in the credit plans did not necessarily have effective operational relevance.

vi. Strategies required to be adopted and responsibilities needed to be discharged by different agencies for ensuring successful implementation of a credit plan were rarely delineated

Because of the deficiencies in the credit planning process, targets envisaged under these plans have in many cases remained arbitrary. This has been a major factor responsible for over or under-achievement of the targets at the end of the plan period. It was also observed that for the same reasons, actual disbursement of credit made in a given area during a specified time period across activities did not conform to the weightage accorded to them in the plan document. In many districts covered by the author's studies, agriculture and industry sectors, though assigned with higher weights in the allocation of targets vis-à-vis service sector, actually ended up receiving much lower shares of credit than the latter.

Tasks Ahead: Ways for Improvement

Need for Formulation of and Integration with Development Plans at the Grassroots Level

A credit plan at the district or sub district level presupposes a development plan for the same level, so that the former can subserve the latter's objectives (RBI 1981). With the introduction of the Constitution (73rd Amendment) and the Constitution (74th Amendment) Acts it is now the statutory requirement for development plans being formulated by the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs), respectively. However, the fact remains that so far development planning has by and large remained limited to the national and State-levels only, where the broad sectoral outlays are fixed in the light of accepted priorities. Allocations under various sectors for a State are disaggregated for Districts/Blocks. Steps are therefore called for to ensure that a credible framework of development planning at the grassroots (district and sub-district) levels is put in place, so that there can be a meaningful integration of credit plans–which are prepared on a bottom-up basis–with the development plans for the respective geographical entities. Decentralization of development planning is often found to be circumscribed by inflexibility in allocation of funds, which in turn is occasioned by the emphasis historically attached to the sectoral plans at the national and state levels. Also lack of credible socio-economic data often impede the process of planning at sub-State levels. These issues need to be addressed in right earnest if the overall objective of credit plans subserving the goals of development planning is to be achieved.

Backward and Forward Linkage Support

A plan in the ultimate analysis is as good as it is implemented. Therefore, one needs to lay equal if not higher emphasis on the availability of linkage support required for successful operation of the schemes included in a credit plan. It is not difficult to appreciate that any credit scheme's success depends not only on the adequacy and timeliness of disbursement of the financial input, but also on the availability of non-credit inputs in the form of backward and forward linkages. Disbursement to the farmers of crop loans even when made strictly as envisaged in the credit plan, may not, for instance, see the farmers carry out their agricultural operations successfully if they are not able to avail

themselves of seeds and water and fertilizers (backward linkages) and are not provided with the proper market (forward linkage) in time. Co-ordinated efforts are therefore called for between the financing institutions and the development agencies to ensure that the schemes in a credit plan do not fail because of the non-availability of back-up support.

Monitoring of Implementation

A credit plan's successful operation also depends on how closely its implementation is monitored on the ground. That is so because these plans more often than not envisage covering small borrowers quite a few of whom are first-generation entrepreneurs. It is only likely that such entrepreneurs would need hand-holding support. To enable the banks to provide such support and thus facilitate effective monitoring of the credit plans' implementation, the bank branches need to be provided with an adequate complement of field staff. Also a comprehensive information system is required to be put in place. Studies made by the author indicate that there is need for modification in the Service Area Monitoring and Information System (SAMIS) in such a manner as to have the effect of simplifying the returns required to be filled in by bank branches in rural and semi-urban areas and also of making these returns more conveniently amenable to computerization and analysis.

Reform-Driven Imperative

Financial sector reforms introduced in India in 1992 onward have brought in their wake not only significant reduction in pre-emption of banks' funds in the form of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) and deregulation of the interest rate structure on both credit and deposit sides, but also prudential standards of accounting for the banking system. Prudential norms have put in place a system of asset classification, income recognition, provisioning (against bad and doubtful debts) and capital adequacy stipulations, which have raised the significance of the recovery of loans manifold. Incomes can now be recognized only when the same are realized and not merely when they accrue to the banks' books of accounts. Also, provision is required to be made for overdue loans unless a recovery is forthcoming within a stipulated time frame.

In other words, with the launching of financial sector reforms, recycling of funds has become much more important than hitherto. The limitation suffered by the Rural Financial Institutions (RFIs) on account of the incidence of default and emergence of non-performing assets (NPAs) has, therefore, to be addressed on an urgent basis, failing which these institutions may not indefinitely be in a position to pump in credit in adequate measure. The size of credit plans is thus likely to be influenced by the rate of recovery registered by the RFIs.

Conclusion

Institutional credit plays a key role in financing the development plans, particularly at the district and sub-district levels. It is in this context that optimum allocation of this scarce financial resource assumes critical importance. To the extent that credit plans are envisaged to accomplish this objective, there is an imperative need for addressing in right earnest all issues connected to the deficiencies identified in the process of credit planning. Efforts need also to be made to ensure that the much-desired integration of the credit plans with the development plans is accomplished across the board. It is widely recognized that the objectives of development and credit planning can hardly be achieved unless there is a perceptible improvement in the country's socio-economic infrastructure - only which can ensure the availability of the linkage support on both backward and forward sides. There is also a need for streamlining the overall credit discipline in the system to secure a turn-around in the repayment climate vis-à-vis bank loans. These imperatives cannot be realized without concerted action by all stakeholders in the development process, including, notably, the lending institutions, the Government agencies and the civil society. Success in formulation as well as the implementation of credit plans therefore hinges critically on effective and meaningful co-ordination among all these agencies.

End Note

1. A Potential Linked Credit Plan (PLP) prepared separately for each district of the country by the National Bank for Agriculture and Rural Development (NABARD) is expected to "map the existing potentials for development and evolve an appropriate mechanism through which such potentials could be exploited over a specified time-frame. These plans presented an effort at making projections of the credit requirements in different sectors in a district, taking into account the long term physical potential, availability of infrastructure, marketing support, absorption capacity and other strengths and weaknesses of the rural credit institutions. These

plans are aimed at reflecting in a more realistic way, the micro (local) needs and potentials and linkages with development agencies" (NABARD 1995: pp 1-2).

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