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REGIONAL RURAL BANK FINANCE IN ARUNACHAL PRADESH, INDIA: AN IMPACT ANALYSIS

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ABSTRACT

Bank is one of the important sources of finance for developmental as well as for the trade and commerce activities in the country. The establishment of Regional Rural Bank in India in the year 1975 was a boon for the small farmers and cultivators in the rural areas of the country. Arunachal Pradesh, popularly known as the land of rising sun is a backward and rural dominated state located in the north eastern most part of the country. The state got late in introducing banking activities in the state. It was in the year 1970 the State Bank of India started its branch followed by Regional Rural Bank in the 1983. Since its establishment the banking sector carried out commendable activities in the state in providing financial services to the peoples of the state. The present paper is an attempt to examine the role of Arunachal Pradesh Rural Bank (RRB) in the socio-economic development of the tribal people of the state through its various financial activities in terms of employment generation, enhancing the income and standards of living, etc.

KEYWORDS

Arunachal Pradesh Rural Bank, Bank finance, Economic development, Rural people, Regional Rural Bank.

INTRODUCTION

The RRBs have been set up in the country with the best intent of extending credit facilities to the rural poor for their economic upliftment. During its existence for more than three decades, the bank have achieved tremendous achievement in the objective of extending banking services to the villages that are located in the remote, inaccessible and un-banked areas. Since its establishment, RRBs have been doing substantial works in identifying the poor beneficiaries under various special programmes meant for weaker section of the society, especially, Scheduled Castes and Scheduled Tribes by providing financial assistance to them.

The RRBs provide credit and other facilities for the purpose of development of agriculture, trade, commerce and industry and other productive activities in the rural areas particularly to the small and marginal farmers, agricultural labourers, artisans and small rural entrepreneurs. By perception and policy prescription, their clientele, to a large extent, comprises of rural people with small means and its focus remained on the provision of credit and other facilities to these people.

Since Arunachal Pradesh is more or less a rural state, the importance of RRBs in this underdeveloped state was urgently felt. As a result, in the year 1983 the RRB was set up in the state with the name and style of Arunachal Pradesh Rural Bank (APRB) with its headquarters at Pasighat (shifted to Naharlagun recently). Though, many other bank branches are functioning in the state, RRB has laid its foundation as a small man's banks and expanded its branches into the most remote places of the state. At present, RRB is functioning in eight out of 16 districts of the state with a total of 22 branches (three branches in urban and 19 branches in rural areas). Within the operational districts of RRB, other 67 bank branches are also functioning viz; State Bank of India with-21, 25 branches of Nationalised Banks, 21 of Arunachal Pradesh State Co-operative Banks. Hence, RRB has great task and challenges to provide banking facilities to the rural people in these districts in particular and in the state in general for the economic development.

OBJECTIVES

The main objectives of the present study are as follows:

1. To study the various credit facilities provided by APRB to different sectors of rural economy.
2. To examine the impact of APRB finance in augmenting income, generation of employment, alleviation of poverty and improving the living standard of the rural tribal people.

RESEARCH METHODOLOGY

The information for this paper was collected from the field survey through structured questionnaires administered over a sample of 200 tribal beneficiaries who have received loan and advances from APRB during the period from to 2005-2009. The beneficiaries have been drawn at random from the record of the ten sample APRB branches with 20 beneficiaries each, located in different areas, i.e., five branches from plain area and five from hill area. While selecting the beneficiaries, utmost care has been taken to select beneficiaries from different categories of people to represent the maximum character of the universe. However, the study suffers from few limitations. Due to the lack of recorded information with the surveyed beneficiaries, both the 'then and now' and 'with and without' approaches has been used in order to measure the impact of bank finance.

IMPACT OF RRB FINANCE

Infact, any development effort will remain lop-sided unless the rural economy prospers and the rural people below the poverty line of our country are emancipated from the shackles of poverty. Rural development has now been so redefined as to include the improvement of quality of life of rural people through remunerative employment and better access to resource through an equitable distribution of income and wealth in rural areas. Bank finance is a powerful instrument in accelerating development programmes in the rural areas. Bank credit is one of the important support around which the rural economy tends to grow. This paper is devoted to examine the impact of RRB finance in developing rural economy in Arunachal Pradesh in general and the sample beneficiaries in particular in terms of some selected variables like employment, income, acquisition of assets and the standard of living, etc.

IMPACT ON EMPLOYMENT

In spite of the high potential of the resource endowment, the level of economic activity in rural area is very low. Like other parts of our country, a significant growth of unemployment has disturbed the normal life of the rural people in the study districts in particular and the state as a whole. Therefore, opportunities for better utilisation of available resources should be created through programmes of horticulture, animal husbandry, piggery and other allied occupation to generate the additional employment as well as to increase the income level of the rural people.

In order to quantify the effect of APRB financing on reducing unemployment, data had been collected from the beneficiaries about the average number of days of their employment in the respective occupation before and after availing loan from the bank. It was found that before availing bank credit, an average beneficiary in the study area was employed for about 102 standard days in a year (Table-1).

TABLE-1 CHANGE OF OCCUPATION AND EMPLOYMENT GENERATION AFTER AVAILING BANK LOAN

Activity	No. of Beneficiaries engaged in activity			Employment days per household		
	Pre-loan period	Post-loan period	Percentage of variation	Pre-loan period	Post-loan period	Increase in Employment days
Agriculture	82	58	(-) 29.27	65	80	15
Horticulture	14	21	(+) 50.00	136	270	130
Industry	09	16	(+) 77.78	44	83	39
Transport	21	38	(+) 80.95	172	331	159
Livestock	11	19	(+) 72.73	87	126	39
Fishery	06	11	(+) 83.33	48	74	26
S/ Business	22	37	(+) 68.18	160	325	165
Unemployed	35	-	(+) 100.00	-	-	-
Overall Average	200	200		102	184	82

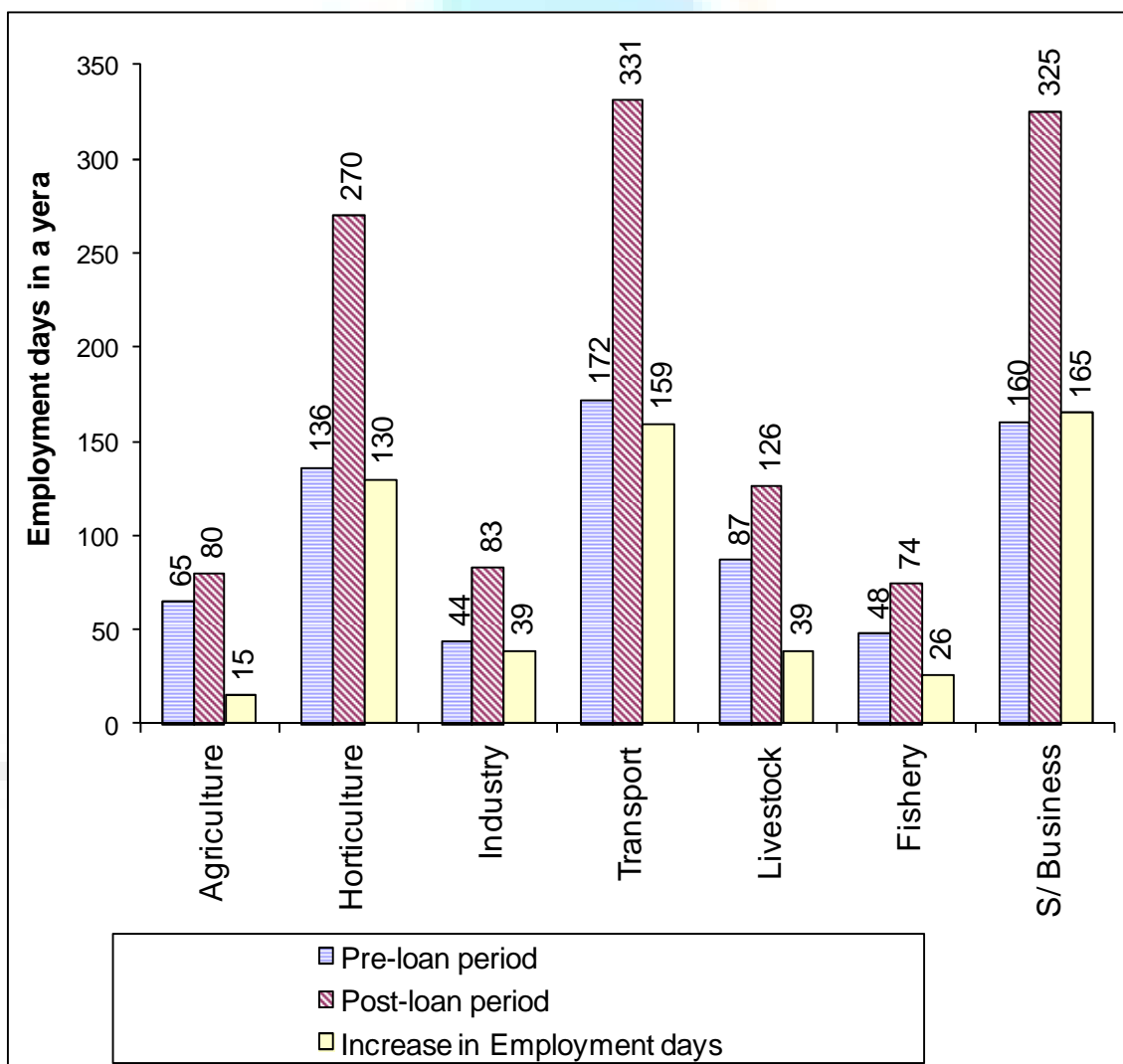
Source: Compiled from field data.

Note: (+) Increased (-) Decreased

However, during the post-loan period, such employment was estimated at 184 standard days in a year with an additional employment of 82 days. It is also clear from Table-1 that the bank loan had generated more additional employment days in the activities like small business (165 days) followed by transport operation (159 days) and horticulture (130 days) than the other activities. It is to be mentioned here that around 18 percent (35 beneficiaries) of the unemployed beneficiaries employed themselves after availing the bank loan. Thus, APRB helped the people to solve their perennial problem of unemployment to a considerable extent by creating new employment opportunities in the study area.

In terms of the change of occupation, the percentage of change towards non-farm sector was highest. About 41 percent of them reported that before availing bank finance they were engaged in subsistence agricultural activities. However, this situation has changed during post-loan period in which the percentage of the people engaged in subsistence agriculture reduced to only 29 percent and remaining 71 percent of the total 200 beneficiaries have found to be engaged in high income earning and employment generating occupation of tertiary sector with the help of bank credit. Hence, it has been observed that there was an impressive change in the occupation of the people and that reflect appreciable performance of the bank in generating employment as well as converting unpaid domestic workers into income earners in the study area.

FIGURE-1: INCREASE OF EMPLOYMENT DAYS IN ACTIVITY-WISE



IMPACT ON INCOME

The basic objective of the developmental activities of the Government is to increase the income of the rural poor. This section attempts to highlight this effect from the information directly collected from the beneficiaries during the field survey. However, it is very difficult to have accurate estimation of the income of tribal people because they do not keep any proper record of their income or business. Thus, the information presented in Table-2 may have some margin of error.

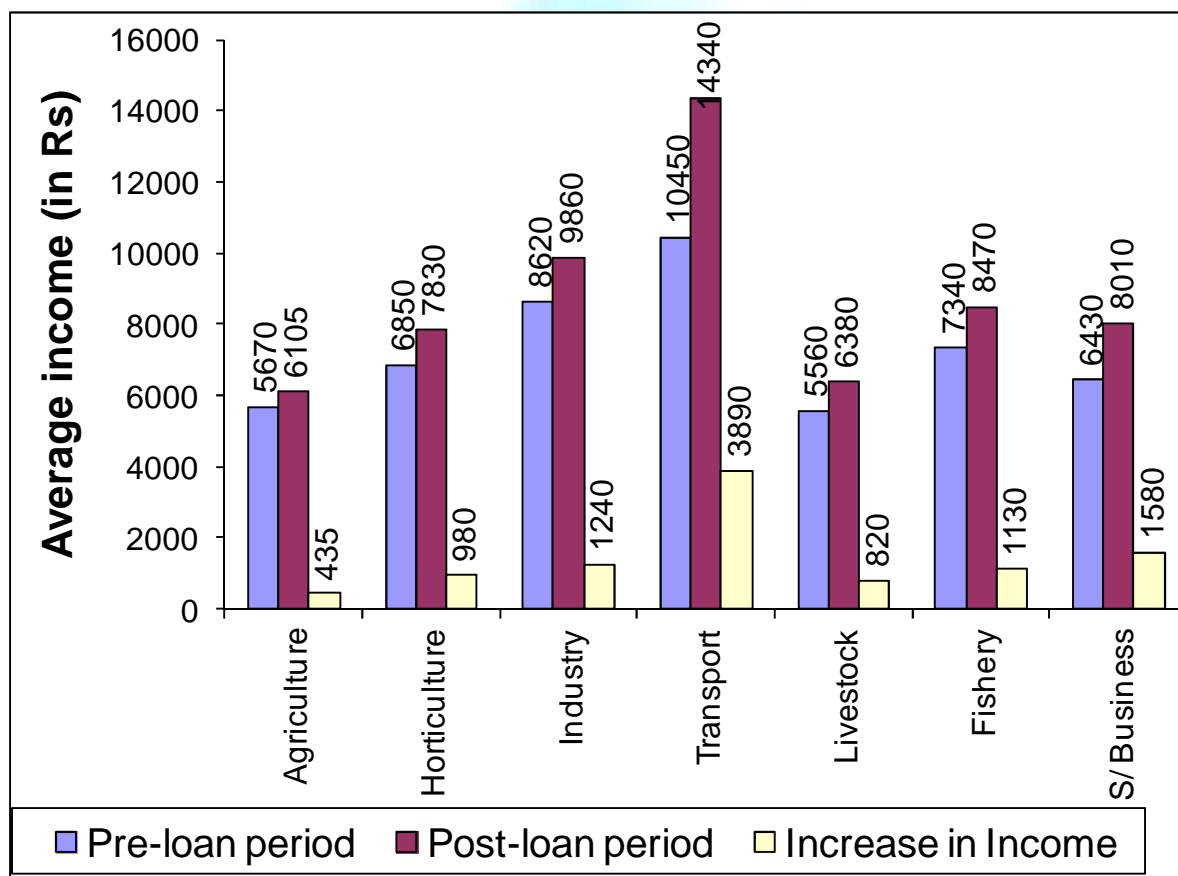
TABLE-2 PURPOSE-WISE ANNUAL NET INCOME AND INCREMENTAL INCOME EARNED BY SAMPLE BENEFICIARIES

Activities	Total Beneficiaries	Average Net Income per Beneficiaries		Average Incremental Income per Beneficiaries	% of Increase
		Pre-Loan Period	Post-Loan Period		
Agriculture	58	5670	6105	435	7.67
Horticulture	21	6850	7830	980	14.31
Industry	16	8620	9860	1240	14.39
Transport	38	10450	14340	3890	37.22
Livestock	19	5560	6380	820	14.75
Fishery	11	7340	8470	1130	15.40
S/ Business	37	6430	8010	1580	24.57
Average Net Income	200	7160	8660	1500	20.95

Source: Compiled from field data.

It is clear from Table-2 that the increase in net income, also called as incremental income was observed with the beneficiaries of all the activities during post-loan period. The overall average incremental income per beneficiary from pre to post-loan period was estimated at Rs. 1500 indicating a net growth in the income to the tune of around 21percent after availing loan from APRB. The activity-wise increase in incremental income shows that transport activity has recorded highest increase of Rs. 3890 with a growth of 37 percent followed by small business and fisheries at 25 percent and 15 percent respectively. The lowest increase in income has been recorded in the agricultural activity with only Rs. 435 with a growth of around eight percent from the pre to post loan period.

FIGURE-2: NET INCOME EARNED BY AVERAGE BORROWER



It has been found that the lack of commercialisation and marketing facility of agricultural activity in the region caused the low income in this sector. However, it was by and large, evident that the APRB finance has helped the rural beneficiaries of the study area in raising their level of income and thereby improving their economic position.

IMPACT ON CAPITAL ACCUMULATION

One of the direct impacts of the bank finance is on accumulation of both working and fixed capital. Since the major portion of bank loan in the study districts are used to acquire either the productive or the employment oriented assets, there is a potential for accumulating capital through investment both in farm and non-farm sectors. Moreover, the borrowers diverted some part of their incremental income for making investment in agriculture, non-agriculture and social sectors. Agricultural investment includes purchase of equipments, land, bullocks, etc., while non-agricultural investment includes household industrial equipments, transport vehicle as well as addition to working capital in non-agricultural activities. Social investments such as housing, education to children, consumer durable, household articles, good health and hygiene, etc., are not directly productive but promote standard of living of the people in long run. The change of capital accumulation after availing bank loan can be seen from Table-3.

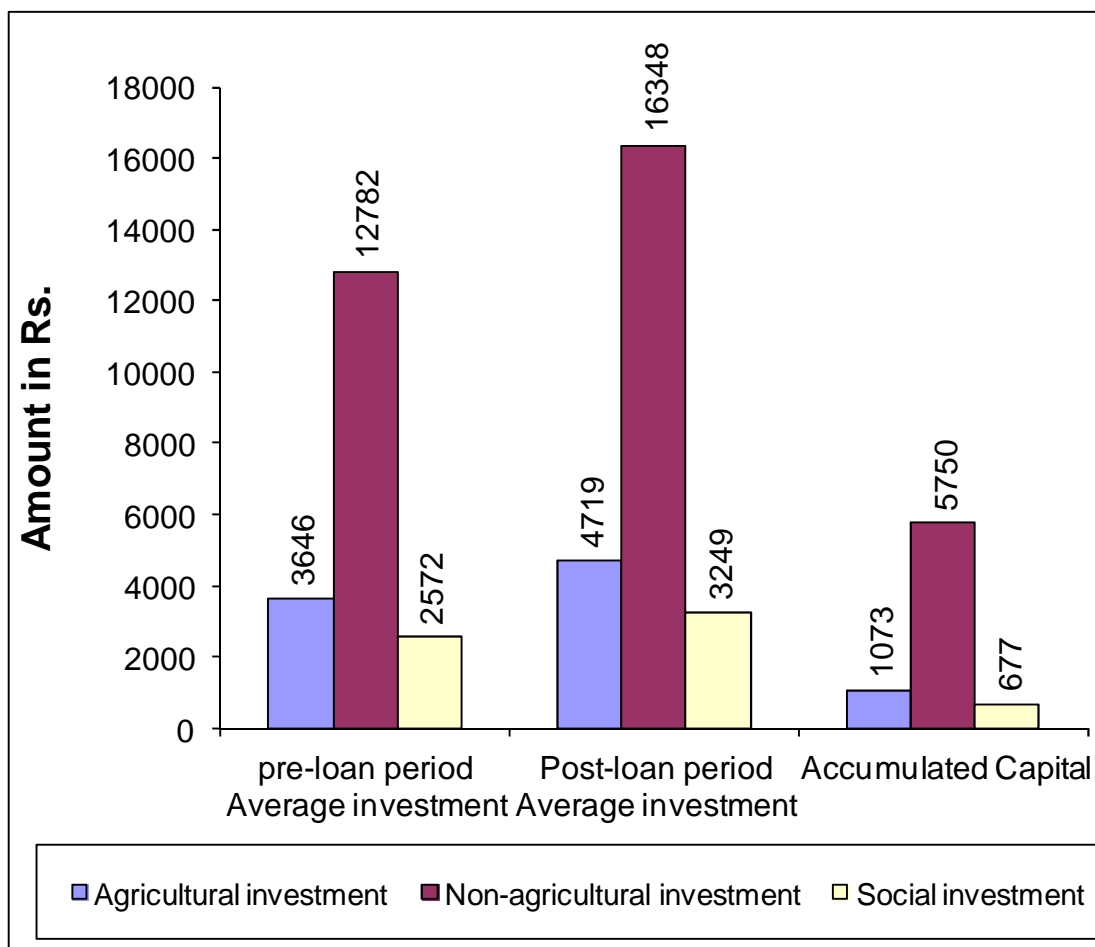
TABLE-3 SECTOR-WISE ACCUMULATION OF CAPITAL OF BORROWERS AFTER AVAILING BANK FINANCE

Sector	Pre-loan Period		Post-loan Period		Accumulated Capital	% Of increase
	Total Borrowers	Average investment	Total Borrowers	Average investment		
Agricultural investment	107	3646	58	4719	1073	29.43
Non-agricultural investment	62	12782	96	16348	5750	44.98
Social investment	31	2572	46	3249	677	26.32
Overall Average	200	6312	200	9963	3651	57.84

Source: Compiled from field data.

The information presented in Table-3 shows that there has been a tremendous change in the pattern of investment made by the beneficiaries during the post-loan period in the study districts. This is due to the shifting of investment from farm to non-farm assets since there is a vast scope for generating additional employment opportunities as well as enhancing of earning capacity of the beneficiaries.

FIGURE-3: SECTOR- WISE ACCUMULATION OF CAPITAL AFTER BANK FINANCE



As a result, out of 200 beneficiaries only 29 percent reportedly invested in farm assets during the post-loan period with an average investment of Rs. 4719. On the other hand, majority of beneficiaries reported that their investments were generally towards the accumulation of non-agricultural capital. It is therefore, observed that average amount of investment was higher in non-agricultural assets than the other assets, which accounted for Rs.16346. Such investment increased to 29 percent in agricultural sector and 45 percent in non-agricultural sector during the post-loan period as compared to pre-loan period. Moreover, a considerable number of beneficiaries indicated that they invested some part of their income in various assets of social purpose, which increased from Rs. 2572 in pre-loan period to Rs. 3249 in post-loan period with an increased of 26 percent. The overall capital accumulation of Rs. 9963 has been achieved during the post-loan period registering an increase of 58 percent from the pre-loan period.

IMPACT ON STANDARD OF LIVING

The level of standard of living of the people has been considered as one of the important criteria for measuring economic development of any region. Therefore, the raising of standard of living of the poor people particularly those who are living below poverty line has become one of the major objectives of economic planning in the country. The financial institutions, particularly the bank, can be an ideal institution to act as the agent of such economic and social change in the rural people. Generally, there are various factors determining the standard of living of the people such as annual income, level of occupation, educational status, housing condition, health and hygiene, social security and status.

In order to know the impact of bank finance on improving the standard of living of the people in the study area, some simple questions were put to the beneficiaries during the field survey based on their living conditions like, housing condition, income earned, possession of asset (movable and fixed), occupation, etc. The information has been collected directly from the 200 sample beneficiaries on the basis of 'now and then' approach. The response of the beneficiaries has been presented in Table-4.

TABLE-4 POSITION OF STANDARD OF LIVING OF THE BENEFICIARIES AFTER AVAILING LOAN

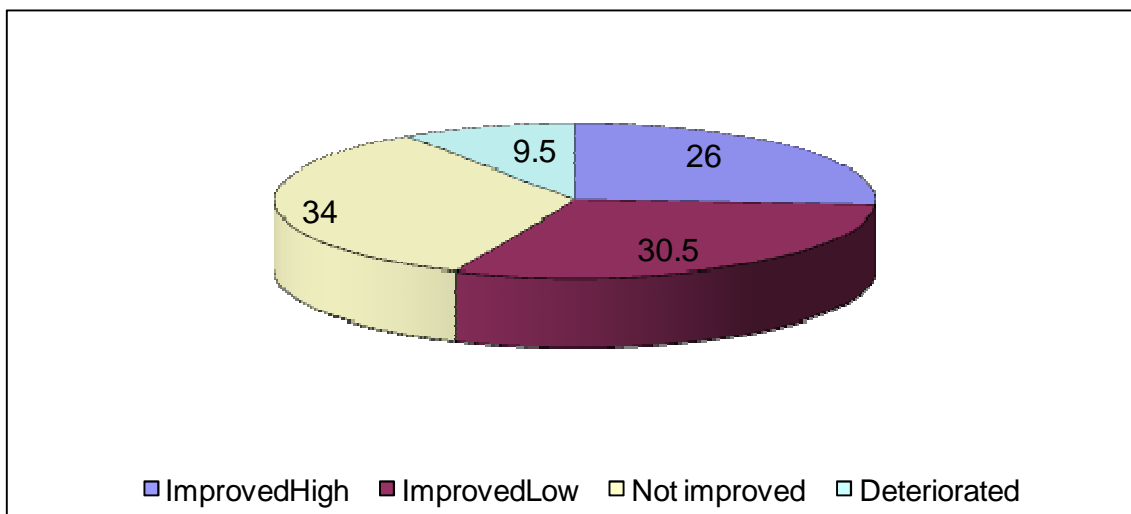
Activity and No. of Beneficiaries	Number of Beneficiaries			
	Improved (High)	Improved (Low)	Not improved	Deteriorated
Agriculture (58)	8	11	27	12
Horticulture (21)	6	5	10	-
Industry (16)	3	6	7	-
Transport (38)	14	14	9	1
Livestock (19)	3	5	9	2
Fishery (11)	3	4	2	2
S/ Business (37)	15	16	4	2
Overall (200)	52 (26.00)	61(30.50)	68(34.00)	19 (9.50)

Source: Compiled from field data.

It is apparent from Table-4 that there was a significant trend in improving standard of living of the rural people in the study area. About 57 percent of borrowers (113 beneficiaries) reported that their economic conditions and social status had improved. Out of 113 beneficiaries, 52 has attained better standard of living

with high income, better housing conditions and acquiring of good number of assets after availing loan from the APRB branch. In activity-wise, more improvement of standard of living has been observed with the beneficiaries of small business (84 percent) and transport sector (74 percent) followed by fishery and industrial sector with 64 percent and 56 percent respectively. The lowest improvement has been recorded with the beneficiaries of agriculture with only 33 percent. The stated primary reasons for the improvement was mainly found in increase of annual net income and incremental income, accumulation of assets, housing condition, etc.

FIGURE-4: CHANGE OF STANDARD OF LIVING IN PERCENTAGE



However, about 34 percent (68 beneficiaries) borrowers reported that there was no change in their living condition after availing loan. Moreover, around 10 percent of beneficiaries informed that their living condition has deteriorated after taking loan from the bank. It is mainly due to the loss or damage of the project.

CONCLUSION

From the above analysis it has been observed that the APRB loan has played an important role in improving the economic condition of the sample beneficiaries in particular and the rural economy of the Arunachal Pradesh state as a whole. The APRB branches were mostly found in the far flung rural areas of the study districts and are playing an important role in popularizing the bank credit. The bank helped the rural people to undertake different economic activities by granting credit through different schemes. More than half of the sample beneficiaries (113 beneficiaries) reported that the APRB finance helped them in increasing the annual income, acquisition of asset, generating additional employment and in improving their living standard. Hence, APRB finance is playing an important role in the process of reducing the level of poverty among the poor tribal people of the state by generating employment in the rural area, enhancing their income and creating assets. However, the APRB has to concentrate more on financing SHG, Cooperative and Small Business Entrepreneurs, etc for better returns and profits.

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