ISSN: 2456–5474 RNI No.UPBIL/2016/68367 Vol.-6* Issue-12*January- 2022
Innovation The Research Concept

Financial Institutions of North East With Reference to Assam

Paper id: 15571 Submission: 11/01/2022, Date of Acceptance: 21/01/2022, Date of Publication: 23/01/2022

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Abstract

North East India popularly known as the North Eastern Region (NER) comprises eight states viz., Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura. Sikkim is the last state to be added to the list of states in the region for administrative purposes though not a congruent state.

Economic development of the region is largely dependent on the efficiency of the banks operating in the region. It is the efficiency of banks that helps to a great extent in mobilising savings and investing the same into profitable channels of investment in order to uplift the economic conditions of the people in the region.

Efficient banking system contributes in an extensive way towards a higher economic growth in any economy. This is more relevant to the economy of NER when the region is yet to exploit the full banking potential for productive purposes. The widening network of scheduled commercial banks has been playing a crucial role in mobilization of savings in the region. The presence of foreign banks in the region is few and of recent origin. There is also non existence of retail foreign branches in the region. The presence of private banks in the region is also very scanty.

The rural financial system in India operates through two sets of institutions in the formal and informal sectors. Though the formal sector has adopted multi agency approach, in North East India commercial banks and co-operative banks are the only two channels to intervene in the rural financial intermediation due to the absence of any other formal channels.

Keywords: Economic Development, Rural Financial Intermediation, Financial Institution.

Introduction

India's Northeast, also known as the land of the seven sisters, comprises the States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura, which collectively account for about 8 per cent of the country's geographical area and roughly 4 per cent of its population. The region is known for its ethnic, linguistic, cultural, religious and physiographical diversity.

The British administration initially treated the hill areas as 'Non-Regulated Areas', then declared them a 'Backward Tract' and, eventually categorised them as 'Excluded Areas' and 'Partially Excluded Areas'.

Statistics are available in plenty about the number of races, tribes and their sub-groups, ethnic groups, cultures, religions, languages and dialects spoken in this region, but broadly speaking there are three distinct groups of people - the hill tribes, the plains tribes and the non-tribal population of the plains.

The region is diverse and heterogeneous. On the other, it is quite homogeneous; the social stratification found in other parts of the country is not present in the Northeast. The tribal societies in the hill areas are egalitarian. As a result, the type of poverty found in many other parts of India does not exist in most of the hilly States of the region.

Objective of the Study

To know the economic backwardness of North-East.

Review of Literature

For the sake of an objective study both primary and secondary sources would be utilised.

Primary Sources of Data

UNDP policy document, land revenue and land reform Act., 1961. Report of the Department of Tribal welfare, Report of the Reserve Bank of India, Action plan for an Effective and Responsive Government in north-East India, official Documents and Reports of Government of India and so on.

Secondary Sources of Data

Books of learned authors, articles in academic journals and feature articles in Newspapers and News periodicals.

Hypothesis

The study will proceed with this hypothesis that the absence of systematic progress in this area has had several adverse consequences besides acting as a stumbling block for extending bank credit. Thus land reforms, cadastral survey and land settlement are imperative for addressing issue of collateral for banks.

Methodology

The approach of the study would be historical and the method adopted in this study would be analytical which involves interpretation of facts objectively.
Sources of Data is Primary and Secondary both.

Tools Used

Case Studies, Checklists, Interviews, Observation and Surveys or Questionnaires.

Statistics Used

Data Collection, Analysis, Interpretation, Explanation and Presentation

Analysis

Again, it has been found that customary land systems are an impediment in getting bank financing, and the absence of the codification of land laws is leading to various land disputes. Due to all these factors, there is a growing realization and emphasis for the codification of land laws.

The Present Economic Policy Framework

Due to the special constitutional arrangements for, and the historical background as well as the geographical location of the region,[5] the central government has long been trying to integrate the Northeast with the national economy. The present policy framework has accepted the right of tribals to retain their way of life and identity and has sought to integrate them through democratic means into the federal frame of the Constitution of India.

The major assumption of regional planning is that it would permit the transfer of surplus generated in one region to another. This mechanism was expected to increase aggregate national efficiency through optimum resource allocation.

Under the influence of this policy, various schemes for the development of infrastructure and economy of the Northeast region have been formulated. The schemes include the formation of the Northeast Council, Hill Area Development Projects and Sub-plans, Tribal Area Sub-plan, and Tribal Development Agency Projects to name only a few. In addition, these seven States have been declared as Special Category States; this entitles them to get 90 per cent of Central Assistance as a grant and just 10 per cent as loan. Some public sector units have also been set up in the region. The policies of industrial licensing, concessional finance and investment subsidy, growth centres, as well as freight equalisation of some major industrial inputs have also been used to promote economic development.

It has to be honestly acknowledged, however, that the development strategy implemented so far, mainly through the Planning Commission and North East Council, has failed to produce the desired results. The State and sectoral plans of the Planning Commission have not been able to provide enough impetus for local development, or to generate processes of self-sustained growth.

Besides, the almost total dependence on Central funds and planned direction has promoted a trait of passiveness towards development and encouraged patronage and corruption. It has also created a government monopoly in employment, which has destroyed the work ethic necessary to build a modern economy. Expectations were raised high, and they could not be fulfilled through centrally sponsored schemes.

Moreover, contrary to popular perceptions, the lack of development in the past has not been the consequence of any shortage of funds. In fact, sufficient resources were always provided to the region, but a substantial portion of the funds earmarked for various schemes has not really gone into those schemes. Some scholars have pointed out that the regime of corruption in India, even under normal circumstances, severely limits the actual impact of development expenditure on target groups. In situations of widespread breakdown of law and order, as in the case of many parts of the Northeast, the impact of government sponsored development projects is negligible.

It can, therefore, be argued that, although some developmental changes have taken place in the region,[8] yet the present policy framework has not been able to provide the basis for a dynamic process of development, including good transport and other infrastructural facilities. The region remains isolated from the rest of the country. It has not been able to attract investors or to produce skilled labour and entrepreneurial resources, and has failed to transform the primitive agricultural practices of the region into modern commercial agriculture. In a liberalised economy, any new policy has to be based on some kind of a market-oriented approach.

The new policy framework should, consequently, concentrate more on economic factors and less on political and cultural factors (although these cannot be ignored altogether). The economic factors include labour cost, comparative advantages, technology, efficiency and returns on investment. Inefficient economic processes and barriers to market entry make a critical economic difference and will define the distinctions between success and failure. The market approach generally assumes economic rationality, and the atomised individual, whether firm or person, as the crucial economic actor. In this approach, the economic system is an aggregated outcome of the production, exchange and consumption of goods and services, and social order is premised to emerge from the self-interested rational actions of individuals

In the Northeast region, even the stimulus to expansion at the national level is likely to run up against supply bottlenecks due to insufficient infrastructure, entrepreneurship, business-supporting institutions as well as the insurgency which prevails in large parts of the region. This is where the state would have to play a role, and more importantly, the State governments. In a liberalised economy, development will not be a boon from the Centre. On the contrary, development of a particular State will depend on the actions of the government of that State. The Central government can, of course, also help the Northeast; but it must be clearly understood that in a market-oriented economy the vast powers of the Centre, acquired under the auspices of the Planning Commission and a huge public sector, will be curtailed.[10] Therefore, there is an urgent need to reappraise the role of the Central government in developing the region with the right degree and intensity in the context of a decentralised liberal economy. The Central government will play the role of a facilitator rather than a promoter of development.

Mapping Credit Flow To North East

It is a well-known proverb in the country, "The Indian farmer is born in debt, lives in debt and dies in debt". Agriculture is an unorganized profession. Its success and failure depends to a large extent on climatic factors. It is often not possible to differentiate between productive and unproductive loans of the farmer. The farmers are generally in need of money to meet their consumption requirement and sometimes for the purchase of modern inputs and draft animals. The farmer's needs are manifold, most of which are unproductive, such as to repay old debts, build and repair houses, purchase of foodstuff, meet the expense of marriages, rituals and festivals, spend for medical treatment and schooling of children etc.[11]

At the beginning of the crop cycle, the peasant faces a considerable need for working capital money to purchase seeds, fertilizers, pesticides and so on. These expenditures are bunched up front and the farmer is often without sufficient funds to finance it. Hence there is a need to borrow, with loan repaid after the crop is harvested and sold. The repetitive taking and repayment of loans is an instinctive feature of life. But most of the farmers do not have sufficient income to sustain them through the period. Therefore, they have to take another loans for meeting their consumptive needs. In the time of drought and floods the crop is considerably damaged and farmers, who otherwise avoid taking loans for consumption, have also to take such loans. As the institutional credit agencies do not provide loam for consumption purposes, the farmers have to depend upon village money lenders and Marwari mahajans to meet such requirements. It is often very difficult to repay such unproductive loans because they do not contribute to the productivity of farmers.[12]

The effect on such indebtedness is miserable on the fanners in particular and the whole agrarian societies in general. The money lenders and village mahajans generally encourage poor farmers to borrow more and mortgage the land as security. As the debt is accumulated by a huge amount and exceeds the paying capacity of the farmer, the land is lost to the money lenders. The poor farmer becomes poorer. He is forced out of land. Secondly, the farmers are also heavily exploited in the course of marketing of the produce. Since they are already on the grip of money lenders, the latter often compel the farmers to sell their produce at depressed prices, particularly at a time just after harvest when the price of the produce is at a low level. Thirdly, due to loss of land and farmers joining the ranks of small tenants and landless labourers, discontent and unemployment assume a problem of huge dimension for the administrative machinery of the country.[13]

Sources of Borrowing

Rural credit. is provided both by the private and institutional agencies. The following are the most important sources[14]:

1. Agricultural money lenders
2. Village mahajan
3. Commission agents
4. Relatives
5. Landlords
6. Co-operative credit societies
7. Rural Development Bank
8. The Reserve Bank of India
9. The State Bank of India
10. Other Commercial Banks
11. The Government
12. Regional Rural Bank
13. Agricultural Refinance and Development Corporation.
14. The ARDC was taken over by NABARD in 1982.

Sources of Borrowing of North Eastern Region

The regional states of the NER are far away from the hub of economic activities of other regions and suffer tremendous climatic in clemencies in the shape of floods and droughts. The NER has about 5 per cent of the total Indian population and it is rural bawd economy. Density of population except for Assam and Tripura is quite low. Some of the states are under wide forest cover. All others have extensive hilly tracts where 'Jhum' cultivation is in practice. The problem is therefore, not only helping agriculture with finance with other inputs but also to modernize the method of agricultural production and to eliminating rural indebtedness of the region.[15]

The sources of rural finance in India are many as has already been mentioned above. For NER, as sources of rural finance we consider, Commercial Banks, Cooperatives, Regional Rural Banks as lending agencies and we also take note of the functions of NABARD and the government sector in the case of rural development. Except Tripura Land Development Banks are not important. Recently, Self-Help Groups are also playing important role as rural credit to eliminate the rural indebtedness.

Scheduled Commercial Banks

Since 1969, Nationalized Commercial Banks have abandoned the philosophy Class Banking. Various groups of Commercial Banks have focused into rural sector since then.

In March 1996, out of the total Commercial Banks offices in the country (62,489), 1935 Commercial Banks offices existed in the NER inclusive Sikkim.16 Table 1 shows the state-wise distribution of NER's total Commercial Banks offices.

Table 1
Distribution of Scheduled Commercial Banks Offices and Direct Advance as on March, 1996

States	Total Bank Offices	Rural Offices	Rural Advance Balance		Total Direct O/S Finance
			Outstanding	Direct- finance	
			Short-term (Rs.Crore)	Long-term (Rs.Crore)	(Ag) (Rs. Crore)
Arunachal Pradesh	08	67	0.54	6.97	
Assam	1,232	846	13.01	108.14	
Manipur	85	50	0.70	5.50	
Meghalaya	179	131	6.64	3.00	
Mizoram	78	62	0.35	0.77	
Nagaland	71	40	8.81	9.66	
Tripura	180	123	0.54	9.26	
Total NER	1,893	1319 (70% of total)	30.59*	141.29**	171.88
All India	62,849	33,092 (53% of total)	6,154.27	9,751.92	15,906.29
Total NER including Sikkim	1,935	1.352	32.72	147.35	180.07
NER as % to All India	3.0	4.0	0.53	1.5	1.1

Notes: Exclusive of Sikkim.
** Exclusive of Sikkim. () Outstanding.
Source: Report on Currency to Finance (1995-96), RBI.

Table 2 shows how the outstanding bank finance to farmers were distributed according to farm sizes at June 1995, whereby a necessary idea of how the advances were ultimately absorbed can be found out.

Table 2
Absorption of Outstanding Bank Advances (0/S) according to Farm Size in the NER June 1998

Fenn Size	Short-term	Lone-term
Upt0 2.5 acres	16.87	55.94
2.5 to 5 acres	9.72	34.66
Above 5 acres	6.13	56.75
Total	32.72	147.35

Short-term loans include crop loans are meant further for such purposes as purchase of production inputs and to meet the cost of cultivation. The repayment schedule of such loans related to harvesting and marketing. Term (medium and long) are granted for development purposes such as for increasing irrigation potential, purchase of tractors, implements and machinery, improvements of land, construction of godowns/cold storage and purchase of pump sets, bullocks etc.

Co-operatives Primary Agricultural Credit Societies (PACS)

Co-operative as an agency of rural finance is important even today, though not so resilient, effective and business-like. In 1993-94 there were 13,689 borrowers in India with advance and advance outstanding thereto of Rs.7,15,776 lakhs and Rs.9,39,930 lakhs respectively. In the same period activities of Credits Co-operatives in the NER is furnished in Table 3.

Regional Rural Banks (RRBs)

Regional Rural Banks, a genre of rural oriented Commercial Banks, Is intermediate level institutions. This class of intermediate institutions were designed for the sake of improved efficiency of technology or rural finance which is so important on input for rural development and poverty alleviation. RRBs have their share in the NER. There were 11 RRBs in the region in 1995-96 with 665 branches covering 53 districts of NER. At that time they mobilized Rs.459.7 crores as deposits and their outstanding advances totaled to Rs.260.4 crores. That all-India advance to deposit ratio at that time was 56 per cent and that of the NER was 57 per cent.

Table 3
State-wise PACS Borrowers and Advance Nos [0001 Its. Lakh

State	**Borrowers**	**Advance**	**Advance Outstanding**
Arunachal Pradesh	-	-	-
Assam	-	-	-
Manipur	-	-	-
Meghalaya	37	385	669
Mizoram	-	148	1802
Nagaland	-	-	-
Tripura	10	272	2166

Source: Report on Currency and Finance (1995-96), RBI.

Table 4
Operation of RRBs in NER (1995-96)

States	RRBs	Districts	Branches	Deposit	Adv O/S	Branch Adv Adv O/S	Branch AV Deposit	overdues
Arunachal	1	5	19	8.9	2.8	0.15	0.47	0.5
Assam	5	23	404	273.2	150.7	0.37	0.68	75.6
Manipur	1	8	29	4.9	3.7	0.13	0.17	3.0
Meghalaya	1	4	51	44.7	9.5	0.19	0.88	2.3
Mizoram	1	3	54	25.1	7.0	0.13	0.46	2.9
Nagaland	1	7	8	16	0.7	0.09	0.20	0.6
Tripura	1	3	90	101.3	86.0	0.95	1.13	70.4
Total NER	11	53	655	459.7	260.4	0.40	0.70	155.3
All India	196	425	14509	11150.0	6291.0	0.43	0.771	796.0

The business of RRBs as depicted in Table 4 calls for a higher ratio of deposits to finance. The absorptive capacity of credit to the region must be given a boost increasing scope of viable lending. More than half of the amount of outstanding appear to be overdues. Deposit per branch in the region show a low degree of mobilization as would naturally case in a poor area.

The National Bank for Agriculture and Development (NABARD)

NABARD's role in rural finance is that of a refinancing agent, this institution is in fact one belonging to the financial market. Its functions are catalytic as it performs through sanctions and disbursements for rural development. In 1996 it sanctioned for NER 1483 schemes. NABARD committed 2 per cent its all India assistance (Rs.641.5 crores) for the NER schemes and disbursed Rs.484.4 crores. The total financial assistance for the above schemes was Rs.719.6 crores. These schemes are obviously for rural development with fund institutionally channeled.

Table 5
Percentage Utilization of Fund under IRDP in Eighth Plan onwards

States	1992-93	1993-94	1994-90	1995-96	1996-97	1997-90	1998-99
Arunachal Pradesh	61.0	74.0	88.0	68.0	66.0	81.0	74.0
Assam	87.0	101.0	58.0	74.0	113.0	81.0	25.0
Manipur	86.0	98.0	86.0	75.0	69.0	74.0	0.0
Meghalaya	87.0	74.0	88.0	65.0	73.0	67.0	70.0
Mizoram	99.0	98.0	96.0	97.0	147.0	85.0	98.0
Nagaland	84.0	102.0	85.0	50.0	73.0	59.0	0.0
Sikkim	105.0	82.0	74.0	74.0	120.0	82.0	82.0
Tripura	67.0	64.0	117.0	80.0	94.0	90.0	82.0
All India	88.0	83.0	75.0	77.0	81.0	81.0	78.0

Source: Compiled from various Annual Reports of Ministry of Rural Development and Basic Rural Statistics (2001), Ministry of Rural Development, Government of India.

Role of Self-Help Groups

The SHG concept evolved as the poor have demonstrated their potential through self-help. SHG are voluntary association of people who are homogeneous in terms of socio-economic background or traditional occupation and have come together for-a common cause for the benefit of group members.

SHG Bank Linkage Approach was introduced by NABARD in February 1992 as a Pilot Project to cover just 500 SHGs to test the efficacy of the rural poor people's approach to a participatory process of development.

The Pilot phase was followed by setting up of Working Group on NGOs and SHGs by the Reserve Bank of India in 1994. The RBI advised the banks to mainstreaming lending SHGs as a part of their rural credit operations.

For selection of SHGs for linkage with banks, NABARD has set out simple guidelines for the use of Banks and NGOs: The progress under the Linkage Programme is reported to be quite encouraging. The Central Government has extended the group approach as principal mode while structuring Swama Jayanti Gram Swarojgar Yojana effective from the 1st April, 1999.

Mapping Impediments to Credit Flow

A number of impediments that constrain the smooth flow of credit in the North Eastern Region. The following are some such identified factors[19]:

1. The lack of basic infrastructure such as roads, communications and transport facilities, adequate power, is the major impediment in the region. There are no rail links to the States in the region except Assam and some parts of Nagaland. The lack of adequate infrastructural facilities has retarded the economic growth in the region,
2. Industrial sector is underdeveloped with hardly any large-scale industry in the private sector. Entrepreneurship is yet to be adequately developed among the people of the region. Despite the various subsidies granted in the separate industrial policy for the region, the investment from outside entrepreneurs has not been forthcoming to the desired level due to infrastructure problems.
3. Agriculture is also still underdeveloped with production being mostly at subsistence level. There is hardly any generation of marketable surplus and use of modern inputs, resulting in reduction in demand for institutional credit.
4. The topography of the region, which calls for a greater investment in infrastructure, has been a handicap in adopting the strategy of branch expansion for maximizing financial inclusion.
5. Banks do not extend loans beyond certain sums without land collateral. Many individuals have no pattas legalizing their ownership in the hill regions.
6. There are no conscious efforts on the part of lending agencies to spread awareness among people about the banking facilities available under various schemes. To some extent, there is lack of enthusiasm on the part of people to raise a loan from the banks which points to absence of a matured credit culture and the transactions
7. Poor performance in the issue of Kisan Credit Cards (KCC) by banks in the States such as Manipur and Nagaland is attributed mainly due to lack of awareness of the farmers.
8. There are many NGOs operating in the region. Most of the NGOs are involved in social activities. They are not oriented towards rendering financial services in the region.
9. Appropriate training modules are not available to impart training to NGOs. Such untrained NGOs find it difficult to identify right people for creating SHGs and imparting them necessary skills and motivation to further SHG movement in the region.
10. Larger usage of physical currency by the local people is considered a hurdle to make it at par with the rest of the economy of the country which has graduated to more advanced stages of fund transfer.
11. Poor recovery of loans, especially those under Government sponsored schemes and default by borrowers act as a deterrent for granting fresh loans.

Micro credit linkages of the banks with SHGs leave much scope for improvement. A status paper prepared in May 2006 by North Eastern Region Community Resource Management Project (NERCORMP), a project of International Fund for Agricultural Development (IFAD) and North Eastern Council (NEC), operating in six hill districts of Assam, Meghalaya and Manipur, throws much light on the constraints faced in this area. Some of the constraints listed are:

1. Limited bank branches
2. Inadequate staff in branches
3. Insistence of banks on joint-rating with NGO, though bankers cannot spare time
4. Insistence of banks on regular transactions with SHG, which is not possible owing to distance problems (for instance farmers sometimes have to spend Rs.500 to Rs.800 for a single journey).
5. Bank managers not being adequately sensitized to appreciate the potential of SHG movement
6. Single member's defaulting record preventing the whole SHG group to access credit linkage. Some bankers want SHG record to be maintained in English, which is difficult in the rural setting
7. Wide spread intolerance to even minor mistakes in record maintenance by SHG
8. Bankers' feeling that SHG linkages are additional burden and therefore their remaining unenthusiastic.

Economic development of the region is largely dependent on the efficiency of the banks operating in the region. It is the efficiency of banks that helps to a great extent in mobilising savings and investing the same into profitable channels of investment in order to uplift the economic conditions of the people in the region.

Efficient banking system contributes in an extensive way towards a higher economic growth in any economy. This is more relevant to the economy of NER when the region is yet to exploit the full banking potential for productive purposes. The widening network of scheduled commercial banks has been playing a crucial role in mobilization of savings in the region. The presence of foreign banks in the region is few and of recent origin. There is also non existence of retail foreign branches in the region. The presence of private banks in the region is also very scanty.

The rural financial system in India operates through two sets of institutions in the formal and informal sectors. Though the formal sector has adopted multi agency approach, in North East India commercial banks and co-operative banks are the only two channels to intervene in the rural financial intermediation due to the absence of any other formal channels.

Branch Expansion in the Region

The region has experienced a moderate branch expansion in the post reform era. Number of new bank branches, both public and private, has been established in the region.
(Table 8). Further it shows that majority of branch expansion has taken place in rural areas.

Table 7
Expansion Commercial Bank Branches in N.E.R

Year (As on 31st March)	No. of Branches	
	North-Eastern Region	All India
2004	1920	67313
2005	1952	68339
2006	2027	69417
2007	2076	71781
2008	2051	76891
2009	2133	80369
Growth Rate (%)	2.02	3.71

Source: RBI Report on Trends & Progress of Banking in India, 2004-09

Table 8
State-wise Distribution of Banking Centers and Bank Branches

State	All Bank Branches*		Banking Centers**							
			Rural		Semi-Urban		Urban		All Centers	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
A.Pradesh	73	76	47	47	10	10	0	0	57	57
Assam	1331	1382	691	692	67	67	6	6	764	765
Manipur	77	80	32	33	12	12	2	2	46	47
Meghalaya	190	201	114	116	12	12	2	2	128	130
Mizoram	91	93	52	53	8	8	1	1	61	62
Nagaland	82	86	32	33	11	11	0	0	43	44
Tripura	207	215	98	99	24	24	1	1	123	124

Population per Branch

Table 9 explains this fact where we see that the population per branch is the highest in the N.E Region at 22 thousand in all the years with a slight decline in 2008 and 2009 at 21 thousand.

Table 9
Population Served per Branch across Regions (in '000)

Year	North Eastern Region	Northern Region	Southern Region	Central Region	Eastern Region	Western Region	All India
2004	22	13	13	20	20	15	16
2005	22	13	12	20	20	15	16
2006	22	13	12	20	20	15	16
2007	22	13	12	20	20	15	16
2008	21	12	11	19	19	14	15
2009	21	11	11	19	19	14	15

Source: RBI Report on Trends & Progress of Banking in India 2004-09

Population per branch and area per branch

The APPBO of 18,833 in NER is markedly higher than the all-India figure and is particularly high in the rural areas of Assam, Manipur and Nagaland. Non-functional bank branches in Manipur (12 RRB branches) and Nagaland (2 branches) have raised the APPBO in Manipur above 30,000 and in Nagaland above 24,000. The geographical area per branch in the region is also much larger than the national average and this negates the advantage of lower APPBO in Arunachal Pradesh, Meghalaya and Mizoram (Annex Table 3.1). The data indicate that the area per branch in the States of Arunachal Pradesh (1232 square kms.), Meghalaya (121 square kms.) and Mizoram (276 square kms.), is much higher than the national average of 47 square kms. The scenario is the same in other States, except in Assam and Tripura. The extra distance and time required for travel to the branch is compounded by the poor road connectivity in the region, indicating an effectively lower degree of penetration of banking than would be indicated by this measure alone.

Deposit Mobilization and Credit Advancement

A remarkable progress in this direction is also attributable to the Lead Banks operating in the region. The deposit profile of the region is presented in Table 10.

Table 10
Deposit and Credit of Commercial Banks in N.E. Region
(Rupees in crores)

Year	Deposit	Credit
2003	21606	5692
2004	24768	7315
2005	28958	10010
2006	34334	13585
2007	41880	17162
2008	50016	19531
2009	63247	22642

Source: RBI: Statistical Tables Relating to Banks in India

There has always been a wide disparity between deposit mobilization and credit advancement in the region.

Comparative Analysis of Performance of Banks

It is evident from the banking literature that since deregulation certain positive changes have taken place in the Indian banking sector. There has been drastic improvement in the productivity and profitability of the sector. Indian banks without having any doubt have responded reasonably well to the global challenges of globalization, recession etc. However, the same cannot be ascribed to the banks in the North-Eastern region. Being isolated geographically, the performance of the banks in the region is not at par with the other regions and with the nation as a whole. Thus one can explore whether deregulation could bring the same result in the region as well. As the ultimate objective is to spread the fruits of deregulation across the country so that deregulation can benefit all the regions and all the sectors. Hence it is aimed in this section to compare the performance of the region as a whole with that of the Nation.

Social Capital As Alternative Collateral

As recommended by the Advisory Committee on Flow of Credit for Agriculture and Related Activities from the Banking System (Vyas Committee), Reserve Bank had advised the banks to adopt Joint Liability Group (JLG) SHG approach for providing credit in the NER. Some of the banks have already adopted the approach.

Joint Liability Groups

JLG has evolved as one of the innovations of the credit products and delivery systems which help banks to improve credit flow with advantages of low default risk, transaction costs relating to appraisal, monitoring etc. This focuses the mid-segment people with stress on social security rather than collateral security. Financing is done by formation of a group of 5 to 10 members as JLG. Loans are given individually, however, members are jointly and severally liable for repayment. It offers greater flexibility for the credit user to determine his needs and priorities and increases credit outflow by increasing the quantum of credit to existing clients and enrolling new clients through JLG. It reduces risk cost, improve recovery performance and low operation cost for the banker. Good borrowers only are taken as members, since all members are liable for repayment of the whole group.

The loans disbursed to JLGs by participant banks under the pilot project are eligible for 100 per cent refinance from NABARD. A special concessional refinance rate of 0.5% percentage points below the lowest refinance slab fixed by NABARD for schematic loans will be made available under the pilot projects. The purpose for which the group members would use the credit should desirably be left to the wisdom of the JLG members.

NABARD has sanctioned to the banks a grant support up to Rs. 3.00 lakh for implementation of JLG in the State of Assam towards preliminary expenses, training, promotional costs, monitoring, etc.

As on March 31, 2006, cumulatively 357 JLGs have been promoted and financed by the two RRBs viz. Assam Gramin Vikash Bank (AGVB) and Langpi Dehangi Rural Bank (LDRB) and in the State of Assam through their 53 branches in 17 districts disbursing an amount of Rs. 364.38 lakh. The recovery percentage is between 80% and 90%. Indian Bank has also reported having formed 100 JLGs of 5 members per group of which 60 groups have been provided credit at Rs. 35,000/- per group. Keeping in view the success of the JLG concept and financing in group mode, other banks are evincing interest in implementation of the scheme. The scheme has contributed to increasing the client base of the banks as also improved ground level credit flow.

Social Capital as Alternative Collateral

While exploring the possibility of a community guarantee in lieu of land as collateral for bank finance, community bonds, often robust as they are in matters related to tradition may not necessarily extend to non-traditional sphere such as dealing with institutional credit, as they lack in keeping books of accounts and are not aware of their responsibility on financial matters. Financial institutions in the region have explored this possibility by working with Village VDB and VC of Nagaland, and have not had much success as guarantor of individual loans.

State Bank of India extended credit to individuals against guarantees provided by VDBs, which usually had accounts with the bank. Yet in many cases the bank could not recover the debt. These loans were relatively small in size (not exceeding Rs. 3.5 lakh). NEDFi also extended finance through Village Councils (traditional local self governing institution, unlike the VDBs which have a modern development oriented outlook) in Nagaland in two ways. First, it lent to individuals against guarantees from village councils. About 68% of such lending turned out to be NPA. When the village council did not honour the guarantee and the Debt Recovery Tribunal was approached, NEDFi was advised to take up the matter informally with the councils. NEDFi also lent directly to village councils for the purpose of further on-lending by the councils. The recovery of these funds was even worse and 85% of the debt turned into NPAs. On the other hand, the experience of some SBI branches in financing through VDBs has been largely successful with cent per cent recovery from many of the VDBs when they are extended support in the area of account maintenance and marketing.

The mixed nature of these experiences reiterates that the social capital in tribal societies, largely unutilized as they are, will be required to be moulded and conditioned to perform their potential role. Institutions existing or engineered will have to be groomed into playing their due role through gradual exposure and experience. Once a few successful instances are established, it will be possible to replicate the same rapidly with minor modifications which variations in local conditions may require.

For the comfort of the financial institutions an informal rating of such institutions in terms of their experience and capability can be started.

With the waves of reform taking place in the financial sector and more specifically in the banking sector, seems to have changed the overall orientation in the banking sector. Banks are now functionally more advanced, technologically driven, guided by sound polices and principles. Indian banks today are in a position to sustain any kind of crisis and are constantly involved in the process of innovation. However a cursory look to the performance of banks in the region portrays that, although Indian banks have responded well to the irreversible process of globalization and liberalization, the banks in the North Eastern Region exhibit poor performance on different counts. For example the CD ratio shows a very dissatisfactory position. However, the growth rate of aggregate deposit is higher than that of the national rate. The growth rate of aggregate credit is also compatible with that of the national figure. Though moderate branch expansion has taken place in the region but the rate of growth when compared with All India is much lower. Since the economic development of NER is greatly dependent on the banking sector, hence it calls for conscious efforts on the part of government, policy makers and all other competent authorities to design suitable measures to make the banks perform at par so that reform benefits the country as a whole and thereby bring the economy of the region to the mainstream.

Indebtedness to formal financial institutions

The All-India Debt and Investment Surveys (AIDIS), show the indebtedness of households to formal financial institutions.

1. Barring rural households in Tripura, the percentage of indebted households in the region is significantly lower than the national average. The percentage of total indebtedness ranges from 1.5 (Meghalaya) to 30.7 (Tripura), as against the national average of 42.7.
2. The share of households indebted to non-institutional sources is also significantly lower than the national average, barring in Arunachal Pradesh and Manipur.
3. Within the institutional sources, government is the most important source of institutional credit in many States, and its share in the total debt is higher than the national average in all the States.

Credit to Net State Domestic Product (NSDP) ratio is another measure of banking penetration. The credit to NSDP ratio of the all the states in the region is not only lower than the national average, but, barring Meghalaya, is also lower than any other State/Union Territory of India.

All indicators thus show the low levels of financial intermediation and financial inclusion. The factors responsible for this are:

1. sparse population settlement and difficult terrain coupled with poor transport facilities - even though the APPBO is lower;
2. uneven distribution of bank branches within a State, mostly located in the State capitals and important commercial centres;
3. NSS consumption data reveals that consumption level in the region is above the national average while the level of income is markedly lower. Further, savings could take the form of non-financial assets;
4. the nature of the economy with low level of commercialization and lower recourse to banking channel for transaction purposes;
5. formal and cumbersome procedures and documentation required in typical banking transactions discourages people to come to the banks; and
6. the public are not aware of the various services provided by the banks and the advantages that could be derived by them.

Overview of North East India
North East India

1. Literacy rate of mizoram is91.58% and that of tripura is 87.75%
2. Most of the india's oil reserves are located in the assam.
3. Sikkim is india's fist state with 100% sanitation coverage.
4. Come and see the hornbill festival of nagaland once in a lifetime.
5. Jawahar lal nehru once said, manipur is the jewel of india.
6. Tripura's manikya dynasty is one of the oldest dynasties in the world.
7. Meghalaya is the scotland of india.

Why North East India Is Not Developed

1. Consists of Eight States – Assam, Arunachal Pradesh, Manipur,
2. Meghalaya, Mizoram Nagaland, Tripura and Sikkim.
3. Total area – 2,62,179 Square Kilometers.
4. Is Connected to rest of the India Through a Narrow Corridor.

Sources : Map – Google Images

Causes of Under Development

Historical Reasons	**Partition of India- the Major -** Road, Rail and River Routes Connecting North East to Rest of the India Suddenly got Snapped **due to it.** **The Chinese Aggression of 1962 –** Created a Feeling in the Minds of Private Investors that Large Scale Investment in North East is Risky. **Bangladesh Liberation War of 1971-** Led to Large Scale Migration of Crores of People as Refugees in North East Region, Demographic Change, Ethnic Tensions and Insurgency in Nagaland, Mizoram, Assam, Meghalaya, Tripura and Manipur.

ISSN: 2456–5474 RNI No.UPBIL/2016/68367 Vol.-6* Issue-12*January- 2022
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Other Reasons in Present

1. Low Agricultural Productivity. North East Produces only 1.5%
2. Low Agricultural Productivity. North East Produces only 1.5% of the country's Total Food Grains. Agricultural Practices are Still Traditional (Including "Jhum" Cultivation which Leads to Large Scale Deforestation, Soil Erosion and Thus Loss in Soil Fertility).
3. Low Cropping Intensity (About 1.5)
4. Low Coverage of Irrigation
5. Low Application of Chemical Fertilizers
6. Due to Coal Mining, Fertiliser, Paper and Cement Industry and Militant Activities, Natural Resources in North East are Being Exploited and Mismanaged, Causing Depletion of Those Resources That are Considered as "Potential for Growth and Development of North East Region.
7. The Development of Transport Infrastructure in North East is very Slow, thus Reinforcing the Alienation and Isolation from rest of the Country as well as Resulting in slow Mobilization of Resources and Wealth. The Railway Network of North East is only 4% of India's Rail Network .
8. Low Credit Flow from Banks. Credit Deposit Ration is Less than 50% in North East.
9. Lack of Infrastructural Facilities for Agricultural Advancement
10. Very Low per Capita Consumption of Power Compared to the National Average.
11. Non-Availability of Huge Reserve of Fine Quality Coal. The Coal Present in North East, Therefore, is unfit for Industrial use.
12. Inadequate Number of Higher Institutions for Engineering, Medical and Nursing Studies.
13. Absence of big Industries Except four Oil Refineries and two Petrochemical Complexes.
14. Substance Addiction is very Common in North East. More than 30% of its youth are Narcotic Drugs Abusers.
15. HIV/AIDS is Spreading fast in Manipur, Nagaland and Mizoram.

But with the initiatives of Central Government, such as the setting up of North Eastern Council, Act. East policy, North East Special Infrastructure Development Scheme, Tuirial Hydro-Power Project, relaxation of Regulatory norms for Production and selling of Bamboo Products etc, the North East region is expected to Develop at a faster rate than what is seen in past.

Result & Discussion

Poor recovery of loans, especially those under Government sponsored schemes and default by borrowers act as a deterrent for granting fresh loans.

Conclusion

North-East India is a low-income Labour Intensive economy. It is sustained largely by private initiative and efforts. The economy of the NER is not sufficiently open to the rest of the country. Large scale underemployment, uneconomic fragmented holdings and problem of shifting cultivation and rest the kind are widely prevalent in rural areas of NER. In future the population of the region would aggravate the rural indebtness and poverty problem.

Suggestions for the future Study

The approach hence should be to seek evidence of the borrower being a farmer rather than being a land holder, in which case the LPC should be adequate. It is also necessary to explore other ways of addressing the problem of collateral, and for this, the following options can be considered.

1. Look for alternative collateral founded on the strength of social capital in the tribal communities.
2. Devising of land documents in such a way as to give banks enough confidence to accept the holding as collateral.
3. Amendment to existing land laws so as to facilitate creation of charge in favour of the lending institutions

Limitation of the Study

1. Hill areas have much to accomplish in preparation exhaustive and systematic land records based on proper cadastral survey.
2. The public are not aware of the various services provided by the banks and the advantages that could be driven by them.

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