The role of institutional credit in Arunachal Pradesh- Expanding financial inclusion.

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Objective : To outline the potential and challenges of providing institutional credit in Arunachal Pradesh using the case studies of District Longding.

Introduction : Arunachal Pradesh is a predominantly agrarian economy with about 95% of its population depending on the primary sector ie agriculture and allied activities for its livelihood. Unfortunately, the primary sector still exists in a very nascent form; with the majority of the farmers still involved in subsistence level farming.

The Government of Arunachal Pradesh has tried to provide some momentum to this sector through various state and centre subsidy schemes, but still there are critical gaps where targeted credit infusion is required.

Potential areas for infusion of Institutional credit:

Traditional agriculture: Only about 20 % of the total area under agriculture is being covered by HYV cultivation. Fertilizers are being used only in approximately only 33% of the agricultural land. The per hectare use of Fertilizer consumption is as low as 2Kgs/ Ha. The input subsidy being provided covers less than 5 % of the farmers. To access these special inputs that can boost the yield, access to institutional credit is a must.

The informal credit is currently available at a rate ranging from 36-60% per annum, which nullifies all the extra income generated, thereby leaving no incentive for the farmer to adopt them.

Cash crops and Horticulture: Being a more specialized domain, the input costs and operational expenses are higher in this sector. Moreover, the local market is not sufficient to absorb the production, which means that the produce needs to be preserved or processed, and then packaged and marketed to other potential markets. This adds to the expenses, which means more credit requirement. The longer a farmer would like to hold on to his produce for better prices, more the investment required shall be. Again, the high rate of informal credit takes the sheen out of the efforts put in.

Case Study: Cardomom plantations

There are multiple agencies which are providing cardamom suckers to the interested farmers. Thus there is minimal input cost. Once the cardamom is harvested it has to be dried to reduce the moisture content. The dryers currently being used are locally made of wood and iron mesh and wood is burned beneath the mesh. This processnot only is time consuming, but also leaves a black soot on the cardamom, thereby decreasing its sale value by 40-50%.

The electric dryers fit for household units cost around Rs one lakh. The cost of this unit can be recouped from the increased profit margin in one season alone. The lack of funds makes it difficult for the farmers to enter into the higher profit margin cycle.

Weavers : Weaving is common in majority of the households in the state. There is a wide range of product that is being made, with every region or tribe having a distinct style. Unfortunately the lack of mobilization of these weavers into financially viable SHGs has deprived them from enjoying the economies of scale. The high input cost, therefore makes the final product uncompetitive in bigger markets. Mobilization of the weavers into hierarchical groups; and complementing by financing through institutional credit, shall go a long way in building up the competencies of the weavers.

Case study: Shishu Loans for weavers

One of the fundamental problems faced by the weavers in accessing institutional credit is the lack of an reliable documentation which can verify their weaver status. In order to tackle this, the Textiles Department, Longding started an ambitious project to identify weavers by house to house survey with the help of village functionaries. On the basis of this survey registers have been prepared and certificates signed by Deputy Commissioner have been issued. In the next step the administration shall organize a MUDRA Loan seminar for the identified weavers to facilitate them to apply for Shishu loans under the scheme. In the first phase the department shall help 500 weavers to get loans thereby pumping around 25 Crores of credit in this sector. This shall in turn generate GDP worth 25 Cr and a minimum of 7-8 cr of profit that shall be shared by 500 families.

Challenges:

1. The physical accessibility of institutional credit

The reach of the banking system has still not reached the remotest corners of the state. As on date, roughly 40-50% circles do not have a bank branches. With mountainous terrain and limited means of transportation, the physical access to institutional finance is very difficult. In most cases, except for those living in the vicinity of bank branch, the time and cost of travelling makes the institutional credit unattractive. In District Longding alone, there are only three bank branches in eight notified Circles.

2. Information asymmetry

Even those who are blessed with a bank branch nearby, often remain unaware of the credit facilitates available and the process of availing them. The staff crunch in the banks makes it difficult for the managers to get out of routine activities and focus on providing credit to the deserving. From the review of the credit figures, it is clearly evident that the banks have continuously failed to meet their targets of priority sector lending.

3. Credit worthiness

The banking culture is still in a very nascent stage in the state. Majority of the customers are first generation using the facility. As a result, most of the customers are not able to meet the standards of creditworthiness prescribed by the banks. Land is predominantly the only collateral that can be provided for bigger loans. The lackadaisical attitude of the revenue authorities in issue of LPC makes the process longer.

4. Consumer behavior

As discussed earlier, since the culture of banking is not deeply entrenched in the system, therefore there is a general tendency to default. The rising NPAs in turn frighten the managers and reduce their risk taking ability drastically. The frequent loan waivers schemes too sometimes increase the default behaviour.

5. Complexity of the process:

The paperwork required for loans is very cumbersome. Due to lack of a facilitator between the banks and the applicant, the limited exposure and ability of the applicants, makes it difficult for them to complete the paperwork required.

The way forward:

Though the viability of operations remains a paramount concern of the bankers, still in view of the long term gains, the banks must open more branches. At least all circle headquarters should have a bank branch to increase the outreach of the institutional finance.

Its high time banks start meeting their targets priority sector lending. The fear of NPAs should note become their overwhelming concern. They must fulfill their basic mandate of increasing the mobility of finance by converting the idle deposits into productive loans.

The institutional credit is much cheaper and more reliable than the informal one and can definitely have a multiplier effect on the rural economy. The more the credit gets pumped into the hands of the deserving, the greater shall be the ability of the economy to generate output. In a situation where external private investments are few, the targeted institutional credit for productive purposes can be the only substitute to boost the economy.