



SPEECH

OF

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FINANCE MINISTER

**GOVERNMENT OF ARUNACHAL PRADESH
MEETING**

OF

**BANKING INDUSTRIES AND CREDIT
ISSUES**

IN THE NORTH EASTERN REGION

AT

VIGYAN BHAWAN, NEW DELHI

ON

4TH OCTOBER, 2008

Respected Union Finance Minister, Union Minister of Panchayati Raj and Development of North Eastern Region, Chief Ministers, and Finance Ministers of NE States, Governor of RBI, Senior Government officers, CMDs of various banks and financial institutions present.

It is indeed my great privilege to be here to present the important issues relating to Banking, Industries and Credit in the State of Arunachal Pradesh.

As you all know that Arunachal Pradesh attained Statehood on 20th February, 1987. Arunachal Pradesh consisting of 16 Districts occupies an area of 83,743 sq km, bordering Bhutan (160 km), China (1080 km) and Myanmar (440 km) in the North East and plains of Upper Assam. The area of the State of Arunachal Pradesh is the biggest among the NE States.

At the outset, I on behalf of my Government and farmers in the State would like to thank Union Finance Minister for announcing a Debt Waiver and Debt Relief Scheme for farmers in his Budget Speech 2008-09. I would like to inform that as per the status ascertained from the banking institutions, the eligible debt of the order of Rs.13.48 crore in respect of 8138 small and marginal farmers have been identified for waiver by the banks in the State of Arunachal Pradesh. Similarly, in case of Debt Relief for other farmers, about 1008 beneficiaries have been identified for Debt Relief of Rs.2.18 crore by the banks. In all, the total 9156 beneficiaries have been identified and amount involved in it is Rs.15.66 crore. The implementation of this scheme will not only be a boon for the poor farmers, but they will be encouraged to enhance their food production to meet the requirement of the

people of Arunachal Pradesh. However, Government of India has not covered major portion of loans disbursed by the State Co-operative Apex Bank from 1990 to April, 1997 which have turned as Non Performing Assets (NPA). The volume is as high as 9152 loan accounts of farmers with loan outstanding of Rs.12.27 crore. The State Government has made a reference to Government of India to provide benefit for the advances disbursed, so that these farmers could be made eligible for fresh advances and bank also reduces its NPAs.

Banking network in the State, particularly in rural areas is weak. There are only 106 branches of the different banks in Urban and Rural areas in the State with inadequate staff strength. The main constraints faced by the state are lack of industrialization, lack of road and rail connectivity, lack of infrastructure and poor market economy. As observed by the Central Level Coordination Committee, out of 115 unbanked blocks identified in NE region, they identified 41 unbanked blocks in Arunachal Pradesh itself. Therefore, there is a need to open branches in all the unbanked blocks in the State to enable the people to take the benefit of banking facilities, thereby to increase financial inclusion in the State of Arunachal Pradesh. There is a need for strengthening of the Lead Bank system, and also establishing an exclusive Zonal office of SBI, at Itanagar having full jurisdiction over all its branches in Arunachal Pradesh.

The Credit Deposit (CD) ratio of the State has marginally increased from 31.66% to 34.80% and that with NABARD (RIDF) and NEDFI advance has gone up from 42.03% to 45.39% over the last financial year. All out efforts are required to be made to improve the CD ratio further. The banks should make efforts to increase CD ratio in a phased manner by resorting to fresh lending in agriculture and other priority sectors.

Banks should also consider to open bank branches in the areas where hydro power projects are coming up, tourism activities are more and mining operations are there. The banks should consider not only the viability of the bank and its profitability rather should consider the social benefit to the people at large.

The credit flow in the State of Arunachal Pradesh is very low compared to the potential. As per the Agriculture Census, 2001, there are 106783 land holdings in the State. Only 9068 Kisan Credit Cards (KCC) amounting to Rs. 13.5 crore have been sanctioned with credit coverage of only 8.5%, leaving a gap of 97715 land holdings. Not even a single KCC has been sanctioned in 2 districts, namely Tawang and Anjaw. Committee on Financial Inclusion has made some important recommendations under which semi urban and rural branch of commercial banks and regional rural banks may set a target of covering 250 new cultivators and non cultivators' households per branch per annum with emphasis on financing marginal farmers and tenant cultivators. Secondly, Self Help Group (SHG) promotion, nurturing and credit linkage should be given push in NE States. Thirdly, given the sparse population density and weak banking network in NE region, there is a need to evolve SHG models suited to local context of such areas. RRBs should play a very active role as self help promoting institutions in the NE region.

State Government in consultation with NABARD has announced a micro finance vision in the budget 2008-09 to promote 5000 SHGs in three years which would cover all poor households in order to achieve 100% financial inclusion. NABARD has agreed to extend technical and financial support for capacity building and exposure of 80 master trainers, 2500 SHG promoters, standardization and supply stationary to 5000 SHGs, developing MIS for promotion and credit linkage of 5000

SHGs. In the recent years, 6 capacity building programmes have been covered for capacity building of 152 members of SHGs and 2 NGOs have been assisted for forming of SHGs in the State. Micro credit is of special importance as a large number of farming communities are marginal farmers with little excess to credit. Almost 80.39% of the geographical area of the State is covered with forests. Given the traditional agriculture predominated by Jhuming and poor means of communication and poverty prevailing in the scattered villages, providing access to microfinance in the villages is very crucial. Therefore, the banks should initiate the steps to expand and strengthen the SHG bank linkage system in the State of Arunachal Pradesh. According to NE Region Vision document 2020, SHGs engaged in farming and non farming micro-level enterprises should be increased to reach one lakh by 2015 and two lakhs by 2020. A special drive needs to be launched for this in the NE Region. To achieve this target, credit needs to be provided in easy terms and conditions and at low interest rates to the needy people.

I am to further add that the State Government has accepted the Government of India package for revitalization of Short term Co-operative Credit Structure (Vaidyanathan Committee). My Government has signed MoU with Government of India and NABARD on 4th May, 2007. Special audit of 32 LAMPs have been completed and regular audit of the banks and 32 LAMPs for the year 2007-08 has also been completed. Arunachal State Cooperative Apex Bank was in financial crisis for not been able to return deposits causing hardship to people especially in rural areas. In order to save the bank from such crisis, the State Government had taken the initiatives which resulted reopening of the bank branches from August, 2007 and gaining confidence of the depositors. State Government has

provided share capital support amounting to Rs.180.00 crore, soft loan of Rs.20.00 crore for revival of the bank and has taken strong measures to recover dues from defaulters.

The implementation of Government of India package for revitalization of Short Term Co-operative credit structure has been held up since the state government is awaiting the response of Government of India on the following three issues, before amending Arunachal Pradesh Cooperative Societies Act vide letter dated 8th March 2008 to Government of India:

1. Relaxation of item 9.3 of the MoU which provides for restricting the share of the State Govt. equity to a maximum of 25% which is presently more than 90%.
2. To accept the recommendations of Sardesai Committee which provides for entire recapitalization assistance from Govt. of India.
3. Recovery norms for eligibility for assistance stipulated in the package to be relaxed as otherwise out of 32 LAMPS, only one LAMP is eligible for the assistance.

Government of India may kindly look into the requests made by the State Government.

There is shortage of currency chests, bank branches, etc. and total absence of foreign exchange facility in the State. We have already informed in our letter dated 12th August, 2008 to Executive Director, Central Office, RBI, Mumbai that the Government of Arunachal Pradesh has identified 37 centres/ locations that are in urgent need of such banking facilities like bank branches, currency chest, foreign currency exchange facility for favorable consideration of the Special Task Force constituted with Smt. Usha Thorat, Deputy Governor, RBI as Chairperson.

The said locations are recommended for setting up SBI bank branches with currency chest facilities as per priority outlined in the said letter. Priority should be given to open banks in uncovered district headquarters namely Anini, Hawaii, Koloriang and Yupia. It is felt that there is an urgent need to have a Foreign Currency Exchange Facility at least at Itanagar which is the State's Capital. RBI is requested to take necessary action for extension of the said facilities in the identified centres/locations in the State of Arunachal Pradesh on priority.

It has been observed that SLBC/DLCC/BLCC have not proved very useful in motivating banks/financial institutions or other credit providing institutions to provide desired credit to the rural masses of the state. Their meetings are held in a customary way after certain interval of time. Discussions are held in these meetings between representatives of banks/financial institutions, State Govt. and NGOs, etc., but with no fruitful results. There is a need to re-look into the functioning of these committees to make it more meaningful for the benefit of the people.

The unique customary land tenure system in the north eastern hilly states require a special dispensation for land based collateral for extending credit by the banks/Financial Institutions to the people. Land Possession Certificate (LPC) may be taken, where available, for establishing proof of right to cultivate the land. Where LPC is not available, a letter of comfort or certificate from the group/local tribal bodies/farmers clubs regarding the borrowers' inalienable right to cultivate land may be taken. For loans above Rs.5 lakhs, where the borrower has an established track record and projected cash flows are sufficient, banks may not insist on land collateral if there is inalienable right on such land. The RBI and banking institutions may look into the problem

and modify and issue suitable guidelines to the banking institutions considering the peculiar situation of NE States in this regard.

The presence of industries in our state is negligible. Now the State Government has initiated the steps to formulate New Industrial Policy under which the state government will provide a number of concessions to attract the entrepreneurs in the State. In this regard State will require liberal funding including credit from financial institutions at a concessional rate of interest and for this Government of India may issue suitable guidelines to the banks.

I conclude by expressing my gratitude and sincere thanks to the distinguished personalities present here and in the end, I would like to quote what our Hon'ble Prime Minister has stated in his public address at Indira Gandhi Park, Itanagar on 31st January'2008 that "Arunachal Pradesh will rise from the east as a new star and become one of the best region of the country".

JAI HIND