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ROLE OF BANKS IN ECONOMIC GROWTH OF SIKKIM

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ABSTRACT

Banks play the vital role in the economic development of a country. They create new demand deposits in the process of granting loans and purchasing investment securities. They facilitate trade both inside and outside the country by accepting and discounting of bills of exchange. The present study is done on East Sikkim. Both primary and secondary data was used for the study. Primary data has been collected from the six villages of East Sikkim and secondary data has been collected from Reserve Bank of India report, State Level Bankers committee report, publish papers and from different agency. Descriptive Statistics and Regression analysis were used for the study. It was found that over the year number of branches of the commercial banks show an increasing trend. For running regression, we used deposit and credit account as independent variables and Gross Domestic Product as the dependent variables. It has been found that deposit and credit has positive impact on the GDP of Sikkim, which implies that banks variable has positive impact on the economic growth of the state. From the primary data it has been found that 93.3 percent of the household have account in the different banks, which implies that banks are able to include financially excluded people into the financial institution.

KEYWORDS

investment, deposit, credit, financial institution.

INTRODUCTION

The everyday problem of unemployment encounter, due to unavailability of services and the large section of the people have excluded from the financial inclusion. In recent years, the Indian government has been considerably trying to make the financial system more equitable in the sense that poor people also equally benefited. The government of India has tried to widen up the banking system in rural part of the country as well. But there is still a concern that bank has not able to include the large section of the society especially excluded groups like women, unorganised sector workers, casual labourer and self-employed into its ambit (Dev, 2006). A well developed financial system allowed people access to funds, help to empower low-income group people and help them to improve their standard of living and help to take part in economic activity very well (Mohan, 2006). Various programmes have been initiated such as general credit card for the poor and disadvantaged section of the society. RBI permitted financial institution such as the commercial bank in the year 2006 to make use of other organisation for the inclusion of people into the usage of the financial system. Reserve Bank of India's vision for 2020 is to open nearly six hundred million new customers' accounts in the different financial institution (RBI, 2006). The government of India also announced Pradhan Mantri Jan Dhan Yojna (PMJDY) to provide a bank account to nearly 75 million people by January 26, 2015. Various programmes have been initiated by the RBI in order to achieve higher financial inclusion such as No Frill Account, Business Correspondence Model, Relaxation on Know your Customer, Electronic Benefit Transfer, Generalized Credit Card and the opening of banks in unbanked areas in the country.

Census of India and RBI (2011) information on the household use of banking services, found that Sikkim (65.5 percent) household are availing banking services. Number of household availing banking services in rural Sikkim was 67.89 followed by 32.11 in urban area. Household availing banking services is highest in East District. The reason may be due to the larger number of banks in East Sikkim, highest population and financial literacy etc. North Sikkim is lack behind in availing banking services. Access to the financial institution or financial inclusion is important to manage household income and improve their living standard in the society through improving their economic position. Poverty and finance are highly interconnecting terms, financial inclusion of the poor mean the reduction in the poverty and lead to inclusive growth which in turn means that equal opportunity for all section of people and opportunity are available for the all. In the report RBI, it has been highlighting the banks to achieving greater financial inclusion to make available a basic no-frill banking account to those who do not have. K.C Chakraborty, the Chairman of the Indian Bank is the person who introduces the FI in the year 2005 and Mangalam is the first village in India where all people have banking facilities. Sikkim is the least populous state of India, having population around 610577 in 2011 census. In terms of land area, it is ranked in second after Goa with an area of 7096sqkm and almost the entire area is mountainous. Population is unevenly distributed across the four district of the Sikkim. In the north Sikkim the population density is 10 persons per square kilometre. The total area of north Sikkim is 4226 square kilometre, which occupy largest area of the state but in terms of population there is only 43709 across district. Around 46 percent of the population reside in the east district of Sikkim and density of the population is 297 and area comes under the east district is only 954 square kilometre. The world third highest mountain Khangchendzonga (8586 metres) is located in India. Sikkim is considered for the hop tourist destination. Sikkim has many mountain peak, 84 Glacier, 315 Glacial lakes like Tsomgo, Gurudongmar and Khecheopalri) but in most of the part due to rocky and high slopes makes agriculture, transportation and communication difficult, (Human development report). Sikkim has also the rich biodiversity and diverse climate condition. Area experience heavy rainfall due to the proximity of the Bay of Bengal. Sikkim share its boundary with country like China, Nepal and Bhutan which has strategic benefit in term of trade and pursuing India act east policy. According to human development report growth of Sikkim gross domestic product and the per capita income is slow due to the low agriculture production and limited manufacture production unit. Seventy-five percent of the population of Sikkim is live rural area.

The closest state of Sikkim is Bengal in the west. The economy of Sikkim is based on animal husbandry and agriculture. About 11 percent of land is used for the agricultural practices in Sikkim. Sikkim agriculture is mixed types and at the subsistence level not at the commercial level. As per the census 2011 workforce participation rate is around 50.3 percent with 53.3 percent in rural areas and 41.9 percent in urban areas. Over the one decade the population growth of Sikkim is 12.9 percent. The total male population of Sikkim is 321661 and female population is 286027 which are quite lower than male population. The sex ratio of Sikkim is 889 females per thousand males. The literacy rate of Sikkim stands 82.3 percent and 87.3 percent for male and 76.4 percent for female.

REVIEW OF LITERATURE

Ramji (2009) analysed the financial inclusion in Gulbarga by collecting primary data. Study found that the there is negative relation with the bank account and the NREGA, which implies that people open account when government of India made mandatory rule for receiving payment of NREGA through bank before that many

people does not have bank account. Cost of travelling to the bank is about 20 rupees from study area and average weekly save for the SHG is 10 rupees which means it cost twice to visit bank so study find that people prefer to save elsewhere.

Bhatia and Charterjee (2010) examined the role of financial inclusion in the slums of Mumbai. Study found that only one third of the urban slum dweller had bank account. Study revealed that there no respondent which has bank account in private bank. Surprisingly only one or two respondent are aware of the rate of interest prevailing in the bank. Study also found that only 96 percent of the respondent has proof identity, it may be no proof identity they could not open the bank account.

Ghatak (2013) analysed the demand side factor effecting financial inclusion. Study found that accessibility, culture, asset, literacy and income are the important factor of the financial inclusion and against it most significant factor is accessibility. Correlation result also shows that accessibility has the highest correlation which is followed by literacy, income, culture and asset.

Sahu (2013) analysed the role of commercial banks on financial inclusion and economic growth in India. To show the relationship between index of financial inclusion and net capita state domestic product study has used regression analysis and found that this two are positively associated with each other. Study found that no state in India belong to high index of financial inclusion and only two state Delhi and Chandigarh belong to medium IFI and rest belong to low IFI.

Fadun (2014) study examined role played by the financial inclusion for alleviate poverty and redistribute income in developing countries, with special reference to Nigeria. It explores the financial inclusion efforts made at the global level, and highlights the financial inclusion strategy developed in Nigeria. It has been found that the number of Nigerians that are excluded from financial services decreases over the year. The findings indicate that financial inclusion constitutes important tool for alleviating poverty and redistributing income in developing countries, particularly in Nigeria.

Jagtap and Barhate (2014) The research study includes study of sector wise credit allocation in Thane district for the year 2009-10 to 2012-13 and study focuses on the activities of lead bank in Thane. It was found that the Lead Bank has a greater impact on the country's economic growth and development. The scheme has been made successful in providing credit mainly to the low income group of people in the society and promoting coordination among different agencies for the development of the country the year 2009-10 to 2012-13.

Mir et al, (2014) tried to analyse the progress of financial inclusion in state Jammu and Kashmir, study found that over the year total credit in the Jammu and Kashmir shows an increasing trend. It has also been found that this credit includes both priority and non priority sector of the state.

Mor and Anand (2015) attempt has been made to see the role played by ICICI bank and also tries to focus on empirical issue. it has been found that from the empirical study that financial inclusion has positive impact on the poverty alleviation and the growth of the country.

Kananth, R. (2015), the emphasis as to be on innovation and creating financial instruments, which capture the advantages that borrowers receive in taking loans from the informal sector. Recognition of the role of social collateral embedded in National Bank for Agriculture and Rural Development led self-help group (SHG)-bank linkages, the need for a hassle free, no frills bank accounts and issuance of timely credit through the KKC are only a beginning in this direction.

RESEARCH GAP

Majority Sikkim's people especially live in rural areas and Banks is the need of the people in Sikkim. One of the special ways to lift people from the poverty is to through inclusive growth, so this can be done through the financial institution like bank. Much study has been done in national and state level but very few studies have been done in household level. And till now no such study has been done in Sikkim so far, so this study will try to fulfil this gap.

RESEARCH QUESTIONS

What is the role of banks in the economic growth of Sikkim?

How far the bank is succeeded to bring people into the financial institution?

OBJECTIVES OF THE STUDY

1. To estimate the status of banks and its role in economic growth in Sikkim.
2. To know the role of banks to bring people into financial institution.

HYPOTHESES

- Growth in number of deposit and credit account has positive impact on the economic growth of Sikkim to know the performance of banks in financial inclusion.

DATA SOURCE AND METHODOLOGY

The present study covers the period from 2005 to 2015. This chapter employ the way of collecting data, statistical tools used for data analysis and model used for the study. Present study has been carried out on both primary and secondary data sources. Data have been collected from the Reserve Bank of India, State level Bankers Committee Report, and Census of India. Primary data has been collecting from the 6 villages of East Sikkim. For collecting primary data stratified random sampling has been used. First East Sikkim were chosen for the study and villages were chosen by distance from the market. First 2 villages namely Marchak and Tumlabong chosen which is nearer to market and similarly two village Nandok and Syari have chosen which is little far away from the market and finally two village that is Pandam and Aahoo have been chosen which is far away from the market place. From each village 20 household has been chosen for the study and overall 120 households had been surveyed.

ANALYTICAL METHODOLOGY

In order to look at the role of different banking indicator in the economic growth in Sikkim the Ordinary Least Square Regression method has been used. For calculating OLS estimation, data has been collected from the secondary sources. For this data is used for the year 2005 to 2014. The formula used for running the regression is

$$Y_i = B_1 + B_2X_1 + B_3X_2 + U_i$$

Where,

Y_i is the Gross Domestic Product of Sikkim

X_1 is deposit account

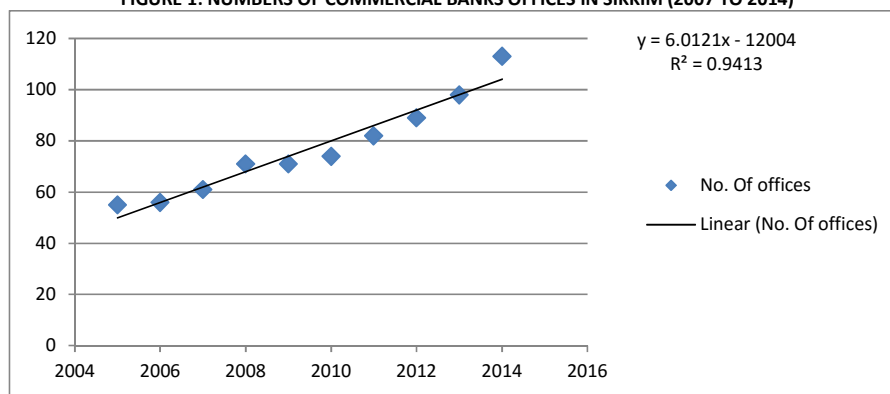
X_2 is the credit account

U_i is the random disturbance term

Result and Discussion

From 2005 when FI policy was implemented, the offices of CB branches increase rapidly. Presently almost the block was cover by the CB by opening the banks branches.

FIGURE 1: NUMBERS OF COMMERCIAL BANKS OFFICES IN SIKKIM (2007 TO 2014)



Sources: SLBC Report of Sikkim (2014)

Figure 5.1 give the trend line on number of office of the commercial banks of Sikkim between the years 2005-2014. Above figure show that over the year the number of offices of commercial bank in Sikkim is increasing over the year which shows that Sikkim has the high demand of the banking services. Result reveal that the growth rate of expansion of bank branches is 6 percent per year.

CREDIT AND DEPOSIT RATIO

Credit and deposit is also one of the important factors of financial inclusion. Ground level credit flow is important aspect of economic growth of Sikkim. Since Sikkim is an agrarian state the performance of banks in Sikkim is not satisfactory.

TABLE 1: SECTOR WISE CREDIT FLOW OF INCOME IN SIKKIM

Year	2012			2013			2014		
Sector/bank	Target	Achievement	% Achievement	Target	Achievement	% Achievement	Target	Achievement	% Achievement
Agriculture	72.05	33.59	46.6	70	21	30	147	31.05	21.13
Industries	11.03	19.55	177.3	11	19.71	179.18	12.63	8.01	63.49
Service/Tertiary	187	257.82	137.9	200	159.78	79.9	204	133.56	65.47

Source-SLBC Report 2014

Above table reveal that Sikkim as an agrarian state the performance of banks in agriculture and allied activities is not at expected level and performance is below 50 percent over the three year. The data reveals contradictory picture in industry where the achievement percent is 179.18 percent in 2013 whereas it has decline 63.49 percent in the year 2014. Service sector show a tremendous improvement.

TABLE 2: CREDIT DEPOSIT RATIO QUARTER ENDED MARCH 2015 IN SIKKIM (Amount in Thousands)

Districts	Deposit	Credit	CD Ratio
East	47915192	38819811	81.02
West	3176671	1256662	39.56
North	1227106	614736	50.10
South	4601892	2296328	49.90
Total	56920861	42987537	75.52

Source-SLBC Report, 2015

Above table reveal the district wise credit deposit ratio for the quarter ended march 2015. It has been revealed the credit deposit ratio of Sikkim is stood at 75.52 percent. East Sikkim has shown a tremendous improvement in the credit deposit ratio at 81.02, followed by 39.50 in west Sikkim, 50.10 in North Sikkim and 49.90 in South Sikkim. Reason of low CD ratio in three districts may be due to the less number of populations, number of bank branches and may be due to the financial illiteracy.

ROLE OF BANKS IN ECONOMIC GROWTH OF SIKKIM

To see the role of banking in economic growth we used credit and deposit account with state gross domestic product. The data cover for the OLS estimation is taken from the year 2005 onward. OLS estimation has been done by using the software Stata 10.

TABLE 3: RESULT OF REGRESSION ANALYSIS

Dependent variable: GDP

Variable	Coefficient
Deposit	0.011*
	(0.0013)
Credit	0.032
	(-0.157)
Constant	-151
No. of observation	120
R. Square	0.91
F statistic	39.37*
P value	0.013

Note: *denotes 1% level of significance.

Source: Author's calculation

$$GDP = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + U_i$$

Where,

GDP is the Gross Domestic Product

 X_1 is the bank Credit Account X_2 is the bank Deposit Account

Holding the other variable constant, if Bank Deposit Account increases by 100%, then on an average GDP increase by 1.1%. On the other hand, if Bank Credit Account increases by 100%, on an average GDP increase by 3.2%, ceteris paribus. The value of R^2 0.91 which means 91 % of variation in GDP is explained by the variation in bank deposit account and credit account. The F value is given as 39.37 with a p value of 0.013. It suggests that collectively both the explanatory

variables have an impact on GDP. Therefore, our hypothesis that there is increase in number of deposit and credit account has positive impact on the economic growth of Sikkim is accepted.

TABLE 4: GENDER WISE DISTRIBUTION OF RESPONDENT

Gender	Frequency	Percent
Female	39	32.5
Male	81	67.5
Total	120	100

Source: Primary Data

From each village 20 respondents were selected and the total number of respondent is 120. Out of 120, male respondent is 67.5 percent and remaining 32.5 percent is female.

TABLE 5: FAMILY SIZE

Family Size	Frequency	Percent
2	3	2.5
3	33	27.5
4	34	28.3
5	30	25
6	9	7.5
7	9	7.5
8	2	1.7
Total	120	100

Source: primary data

Family size is another variable factor effecting financial inclusion status of household. Larger family tend to have higher expenditure causing low level of saving. From 120 household surveys 2 household had three member and person having 4 members 28.3 percent. 2 household has eight members in the family.

TABLE 6: LEVEL OF EDUCATION

Education Qualification	Frequency	Percent
Illiterate	9	7.5
Primary	34	28.3
Below Secondary	29	24.2
Secondary	21	17.5
Above Secondary	27	22.5
Total	120	100.0

Source: Primary Data

Education is yet another factor bearing on level of financial inclusion among the people. Financial literacy is also determined by the level of education. Therefore, education attainment is one of the important factor effecting financial services. Study found that out of 120 respondents 9 are illiterate, 28.3 percent has primary education, 24.2 percent has below secondary education and 17.5 has secondary education. Only 22.5 percent has above secondary education.

TABLE 7: HAVING BANK ACCOUNT

Having Bank Account	Frequency	Percent
No	8	6.7
Yes	112	93.3
Total	120	100

Source: primary data

Out of 120 Respondent 93.3 percent has an account in the banks and remaining 6.7 percent does not have an bank account. It has been found from the surveyed that this eight people does not have bank account due to low level of income and some people do not open account because they do not have any ID.

TABLE 8: ACCESS TO LOAN AND BORROWING

Access	Frequency	Percent
No	53	44.2
Yes	67	55.8
Total	120	100

Source: Primary Source

Since loan is the one of the important variable which we can see that how people are financially included. Out of 120 households 55.8 percent of people take loan from different sources and remaining 44.2 percent does not access to loan.

CONCLUSION

It has been found that over the year branches of Sikkim show an increasing trend. It has been found that Credit and deposit account has the positive impact on the GSDP. It has been revealed the credit deposit ratio of Sikkim is stood at 75.52 percent. East Sikkim has shown a tremendous improvement in the credit deposit ratio at 81.02, followed by 39.50 in west Sikkim, 50.10 in North Sikkim and 49.90 in South Sikkim. Household availing banking services is highest in East District. The reason may be due to the larger number of banks in East Sikkim, highest population and financial literacy etc. North Sikkim is lack behind in availing banking services. Census of India and RBI (2011) information on the household use of banking services, found that Sikkim (65.5 percent) household are availing banking services. From the primary data collected from the six villages of East Sikkim it has been analyse that over the year there is progressive trend in the inclusion of people into the financial institution, in order to encourage people to use financial services, policy makers such as RBI and Government must a use various programme to reduce the financial barrier among the people.

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