A Comparative Analysis of Manipur Rural Bank and Mizoram Rural Bank: Driving Rural Economic Development

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Abstract:

In today's global landscape marked by fierce competition, sustainable rural economic development stands as a critical imperative for India, a nation predominantly rural in character. With 70% of its population residing in rural areas, India's journey towards becoming a developed nation hinges upon the advancement of this sector. Recognized as indispensable for national development and social welfare, rural development addresses the pressing need for capital in rural communities, where access to credit remains limited. Capital infusion can catalyse agricultural and allied activities such as poultry farming, piggery, dairy farming, beekeeping, blacksmithing, and small-scale entrepreneurship, empowering individuals to seize opportunities arising from sustainable economic development. The establishment of Regional Rural Banks (RRBs) on October 2, 1975, aimed to address this credit gap in rural areas. Manipur Rural Bank (MRB1), inaugurated on May 28, 1981, furthered this objective within the Manipur State, operating through 27 branches strategically located across rural, semi-urban, and urban regions. MRB1 not only extends financial assistance to priority and non-priority sectors but also prioritizes financial literacy among Manipur's populace. This paper conducts a comparative analysis between Manipur Rural Bank and Mizoram Rural Bank (MRB2), examining their loan disbursement strategies across priority and non-priority sectors.

Keywords: Banking, Credit, Deposit Mobilization, Economic Development, Rural Communities, Financial Literacy

Introduction

India, with its status as a developing nation, is fundamentally rural-based, with approximately 70% of its populace residing in rural areas. Achieving the status of a developed country necessitates the development of its rural economy. Without bolstering this sector, India's ability to compete globally remains compromised. Access to affordable finance is pivotal, empowering impoverished and vulnerable groups to engage in economic activities and seize growth opportunities, thus fostering rural economic empowerment. Enhancing financial inclusion in rural areas, ensuring equitable access to financial services at affordable costs, is imperative for accelerating economic development, reducing income inequality, and alleviating poverty. The absence of a robust financial inclusion system impedes the rural poor from accessing sustainable economic growth opportunities.

The functioning and services of financial institutions significantly influence modern economic activities, with banking sectors serving as the cornerstone of the economic system. Regional Rural Banks (RRBs) were established on October 2, 1975, under the provisions of an ordinance passed on September 26, 1975, to address the financial needs of rural poor individuals, including small and marginal farmers, rural artisans, small traders, and micro-entrepreneurs. Manipur Rural Bank (MRB1) and Mizoram Rural Bank (MRB2) were established on May 28, 1981, and September 27, 1983, respectively, furthering the objective of extending banking services to rural areas. The economy of Manipur predominantly relies on agricultural and allied activities, as well as handloom and handicrafts. With a total geographical area of 22,327 sq. km and a population of 27.22 lakh according to the 2011 Census, Manipur exemplifies the rural-centric nature of India. Despite its rural character, the state's rural economy requires development, with 71% of its population residing in rural areas. The village economy serves as the backbone of India's economy, and its development is crucial for the nation's progress. However, even after 74 years of independence, the rural economy in India faces infrastructural challenges and various persistent issues affecting cultivators. The rural sector plays a pivotal role in India's economic progress and industrial development, contributing significantly to national income and serving as the largest foreign exchange earner. Despite its significance, this key sector often receives inadequate attention from financial institutions. In contrast, rural poor individuals have historically faced exploitation in accessing credit facilities through informal sectors. The rural credit system encompasses both formal and informal financial institutions and agencies catering to the credit needs of rural populations. However, loans disbursed by informal sectors often entail high interest rates and unfavourable terms and conditions, perpetuating economic and non-economic challenges for rural masses.

Literature Review

Previous studies have extensively examined various facets of rural banking and the role of financial institutions in driving economic development. Uddin (2003) scrutinized the functioning and performance of Regional Rural Banks (RRBs) in the Uttarakhand region, focusing on branch expansion and deposit mobilization. Mathur (2005) delved into the intricacies of loan assets held by commercial banks, particularly emphasizing strategies to reduce non-performing assets (NPAs). Kaye (2006) contributed by assessing the credit needs of rural populations and evaluating the performance of Arunachal Pradesh Rural Bank. Roy (2007) conducted intensive field investigations in West Bengal to evaluate the achievements of RRB objectives, shedding light on the practical implications of rural banking initiatives. Chakrabarti (2011) offered insights into the historical evolution and significance of rural banking, coupled with a performance analysis of RRBs. Singh (2013) provided a focused evaluation of Manipur Rural Bank's performance and its impact on the state's economic development. Building on this foundation, subsequent research delved into specific regional contexts and the intricacies of rural credit structures. Kher (2013) analyzed the rural credit landscape and the role of RRBs in Gujarat, contributing to a nuanced understanding of regional banking dynamics. Taral and Nisarg (2016) conducted a comprehensive assessment of the financial performance of RRBs both pre- and post-amalgamation, offering insights into the effects of structural changes on banking outcomes.

More recent studies have explored broader trends in banking practices and the management of non-performing assets. Muthumeena and Iylin (2019) examined trends in priority and non-priority sector lending by public sector banks, shedding light on evolving patterns of credit allocation. Md. (2021) traced the dynamics of NPAs in Indian Public Sector Banks, focusing on policy measures and regulatory processes aimed at addressing asset quality concerns. The aforementioned literature reviews have predominantly focused on various aspects of India's financial landscape, yet none have specifically addressed the lending activities of Manipur Rural Bank and Mizoram Rural Bank in priority and non-priority sectors. Hence, the present investigation aims to fill this gap by conducting a comparative analysis of their roles in fostering sustainable rural economic development.

Objectives

The primary aims of this study are to assess the performance of Manipur Rural Bank (MRB1) and Mizoram Rural Bank (MRB2) in the following areas: i) Conducting a comparative analysis of deposit mobilization between Manipur Rural Bank and Mizoram Rural Bank. ii) Comparing the loans and advances provided to the priority sector by Manipur Rural Bank and Mizoram Rural Bank. iii) Comparing the loans and advances provided to the non-priority sector by Manipur Rural Bank and Mizoram Rural Bank.

Materials and Methods

This study relies solely on secondary data, which has been personally compiled from various sources including the annual reports of Manipur Rural Bank (MRB1) and Mizoram Rural Bank (MRB2), relevant books, websites, discussions with bank officials, and articles published in national and international journals. The data has been manually tabulated for the purpose of this article, and simple analytical tools such as percentages have been utilized for analysis.

Analysis and Results

Deposit Mobilization:

The importance of deposit mobilization cannot be overstated when considering the future viability of banks. It serves as a primary function of financial institutions, as defined by the Banking Regulation Act of 1949, which outlines a bank's role in accepting deposits from the public for lending or investment purposes. Deposits constitute the most significant source of funds for banks, contributing to their financial strength and overall development. Both MRB1 and MRB2 play a pivotal role in deposit mobilization, acting not only as a crucial source of finance but also as a means to encourage savings and cultivate banking habits among rural communities. These banks mobilize deposits from rural areas to channelize them into productive activities. Table-1 provides a comparative statement of the growth of deposits for MRB1 and MRB2 over a decade.

It indicates a consistent increase in deposit amounts over time, albeit with fluctuating percentages, largely influenced by the release of funds by the State Government. Throughout the reference period, the functioning of both bank branches and customers was disrupted by the COVID-19 pandemic, affecting their operations. In 2012-13, MRB1 recorded a total deposit amount of Rs. 1,360,871, while MRB2 recorded Rs. 11,447,524. The highest increase in deposit amount for MRB1 was Rs. 669,702 (17.59%) in 2020-21, while for MRB2 it was Rs. 8,830,759 (25.39%) in 2019-2020. Conversely, the lowest increase in deposit amount for MRB1 was Rs. 89,554 (6.17%) in 2013-14, and for MRB2 it was Rs. 250,834 (1.65%) in 2015-16. Over the ten-year study period, both banks witnessed a trend of increasing deposit amounts, with MRB1's deposits rising from Rs. 1,360,871 in 2012-13 to Rs. 4,329,846 in 2021-22, and MRB2's deposits increasing from Rs. 11,447,524 to Rs. 42,202,260 during the same period. This analysis reveals a positive trajectory in deposit amounts over the years, although the percentage increase has shown fluctuations for both banks.

Table - 1: Deposit Growth Comparison of MRB1 and MRB2 (in Rs. '000)

Years	Manipur Rural Bank (MRB1)			Mizoram Rural Bank (MRB2)		
	Total Amt.	Increasing Amt.	Increasing Amt. in %	Total Amt	Increasing Amt.	Increasing Amt. in %
2012-13	1,360,871	-	-	11,447,524	-	-
2013-14	1,450,425	89,554	6.17	13,411,880	1,964,356	14.65
2014-15	1,821,198	370,773	20.36	14,920,332	1,508,452	10.11
2015-16	2,157,134	335,936	15.57	15,171,166	250,834	1.65
2016-17	2,771,679	614,545	22.17	18,244,375	3,073,209	16.84
2017-18	2,824,342	52,663	1.86	21,479,458	3,235,083	15.06
2018-19	2,954,271	129,929	4.40	25,950,492	4,471,034	17.23
2019-20	3,138,030	183,759	5.86	34,781,251	8,830,759	25.39
2020-21	3,807,732	669,702	17.59	41,548,704	6,767,453	16.29
2021-22	4,329,846	522,114	12.06	42,202,260	653,556	1.55

Source: Compiled from the various Annual Report of MRB1 & MRB2 (2012-13 to 2021-2022)

Loan Disbursement to Priority Sector:

Ensuring the sustainable growth of the rural economy necessitates the judicious disbursement of loans and advances to the priority sector, a segment often overlooked by commercial banks due to perceived risks and costs. Specific sectors are accorded priority by banks, as highlighted by Mr. Dhall, who reveals the importance of sectors crucial for economic and social progress. The priority sector encompasses vital areas such as agriculture, micro, small, and medium enterprises (MSMEs), education, housing, social infrastructure, and renewable energy. As per RBI guidelines, Regional Rural Banks (RRBs) are mandated to allocate 60% of total advances to the priority sector and 40% to the non-priority sector. However, this allocation was revised to 75% towards the priority sector, effective from

January 1, 2016 (RBI circular No: FIDD.CO.Plan.BC. No. 14/04.09.01/2015-16 dated December 3, 2015).

During the study period spanning from 2013-14 to 2021-22, both MRB1 and MRB2 disbursed loans and advances to the priority sector, as detailed in Table-2. Analysis reveals that MRB1 allocated a minimum of 80% of total loan amounts to the priority sector, while MRB2 allocated 63%. This indicates that MRB1 disbursed a higher proportion of loan amounts to this sector compared to MRB2. The highest disbursement of loan amounts by MRBs occurred in 2021-22, with MRB1 disbursing Rs. 591,675 (94.47%) and MRB2 disbursing Rs. 9,867,587 (70.53%) in 2020-21. Conversely, the lowest disbursement was observed in 2013-14, with MRB1 disbursing Rs. 193,363 (80.82%) and MRB2 disbursing Rs. 1,484,358 (70.50%) in 2012-13. It can be inferred that MRB1 consistently disbursed loan amounts ranging from 80% to 94%, exceeding RBI guidelines, while MRB2 ranged from 63% to 74%. While MRB1's efforts aimed at uplifting the weaker sections are commendable, aligning with RBI guidelines is imperative for sustainable development in both priority and non-priority sectors.

Table - 2: Comparison of Loan Disbursement to Priority Sector by MRB1 & MRB2 (in Rs. '000)

Years	Manipur Rural Bank (MRB1)			Mizoram Rural Bank (MRB2)		
	Priority Sector Loan Amt.	Total Loan Amt.	% of Priority sector to total	Priority Sector Loan Amt.	Total Loan Amt.	% of Priority sector to total
2012-13	205,639	239,215	85.96	1,484,358	2,105,614	70.50
2013-14	193,363	239,259	80.82	1,727,303	2,418,901	71.41
2014-15	232,772	284,210	81.90	1,696,292	2,622,045	64.69
2015-16	396,911	427,766	92.79	2,111,393	3,134,263	67.36
2016-17	386,354	404,408	95.54	1,915,263	2,986,804	64.12
2017-18	455,168	488,763	93.13	2,924,731	3,918,942	74.63
2018-19	517,221	562,887	91.89	3,201,995	4,440,492	72.11
2019-20	444,472	487,316	91.21	4,502,744	7,103,574	63.39
2020-21	389,813	421,457	92.49	6,959,162	9,867,587	70.53
2021-22	558,933	591,675	94.47	5,920,029	9,354,835	63.28

Source: Compiled from the various Annual Report of MRB1 and MRB2 (2012-13 to 2021-2022)

Disbursement Loan to Non-Priority Sector:

The non-priority sector also plays a vital role from both economic and social perspectives, as it requires financial support for sustainable growth and development. Regional Rural Banks (RRBs) emphasize providing loans and advances to the rural poor masses within this sector. However, according to RBI guidelines, they are instructed to allocate 40% of total loan amounts to this sector. MRB1 and MRB2 have also provided loans and advances to this sector, as shown in Table-3 for the reference period (from 2012-13 to 2021-22). It illustrates the disbursement of loans and advances to the non-priority sector. During the reference periods (from 2012-13 to 2021-22), the highest issuance of loan amounts by MRB1 was Rs. 51,438 (18.10%) in 2014-15, while for MRB2, it was Rs. 2,908,425 (29.47%) in 2020-21. Conversely, the lowest disbursement of loan amounts by MRB1 occurred in 2016-17, amounting to Rs. 18,054 (4.46%), while for MRB2, it was in 2012-13, totaling Rs. 621,256 (29.50%). The percentage of loan amounts provided to the non-priority sector relative to total loan amounts exhibited significant fluctuations for MRB1, ranging from 4.46% to 19.18%, and for MRB2, ranging from 25.37% to 36.61%.

This study confirms that MRB1's disbursement of loan amounts to this sector was significantly lower than the RBI's instruction, while MRB2's compliance was slightly below the RBI's guideline. Both banks need to increase their disbursement of loan amounts to this sector to foster sustainable development effectively.

Table - 3: Comparison of Loan Disbursement to Non-Priority Sector by MRB1 & MRB2 (in Rs. '000)

Years	Manipur Rural Bank (MRB1)			Mizoram Rural Bank (MRB2)		
	Non-Priority Sector Loan Amt.	Total Loan Amt.	% of non-priority sector to total	Non-Priority Sector Loan Amt.	Total Loan Amts.	% of non-priority sector to total
2012-13	33576	239215	14.04	621256	2105614	29.50
2013-14	45896	239259	19.18	691598	2418901	28.59
2014-15	51438	284210	18.10	925753	2622045	35.31
2015-16	30855	427766	7.21	1022870	3134263	32.64
2016-17	18054	404408	4.46	1071541	2986804	35.88
2017-18	33597	488763	6.87	994211	3918942	25.37
2018-19	45666	562887	8.11	1238497	4440492	27.89
2019-20	42844	487316	8.79	2600830	7103574	36.61
2020-21	31642	421457	7.51	2908425	9867587	29.47
2021-22	32742	591675	5.53	3434806	9354835	36.72

Source: Compiled from the various Annual Report of MRB1 & MRB2 (2012-13 to 2021-2022)

Discussion

The present findings highlight the crucial role of deposit mobilization and loan disbursement in ensuring the future viability and sustainable development of banks, with a focus on Microfinance Regional Banks (MRBs) MRB1 and MRB2. The authors provide comprehensive insights into the dynamics of deposit growth, loan allocation to priority and non-priority sectors, and the implications for rural economic development. The study emphasises the significance of deposit mobilization as a primary function of financial institutions, as mandated by the Banking Regulation Act of 1949. Analyzing data over a decade, the authors observe a consistent increase in deposit amounts for both MRBs, albeit with fluctuating percentages influenced by state government funding. Moreover, the disruptive impact of the COVID-19 pandemic on the functioning of bank branches and customer operations is highlighted, emphasizing the need for resilience and adaptive strategies in the face of external shocks. The research sheds light on the importance of judicious loan disbursement to the priority sector for fostering sustainable rural economic growth. MRB1 emerges as a frontrunner in this regard, consistently allocating a minimum of 80% of total loan amounts to the priority sector, surpassing RBI guidelines. Conversely, MRB2's performance falls slightly below the regulatory threshold, indicating room for improvement in aligning with RBI directives to optimize developmental outcomes. While the focus on the priority sector is crucial, it also focuses the significance of supporting the non-priority sector for holistic economic and social development. The study reveals notable disparities between MRB1 and MRB2 in loan disbursement to this sector, with MRB1 consistently falling short of RBI's prescribed threshold. In contrast, MRB2 exhibits a marginally better compliance rate, albeit with fluctuations over the reference period.

Implications and Recommendations

The findings of the research have significant implications for policy formulation and operational strategies aimed at enhancing the effectiveness of MRBs in promoting rural economic development. The author advocates for:

- Strengthening deposit mobilization mechanisms to ensure financial resilience and stability, particularly in the face of external disruptions such as the COVID-19 pandemic.
- Enhancing the alignment of loan disbursement practices with RBI guidelines, especially with regard to the allocation of funds to both the priority and non-priority sectors.
- Emphasizing the need for MRBs to adopt proactive measures to address the financing needs of marginalized communities and sectors crucial for inclusive growth.
- Encouraging greater transparency and accountability in reporting loan disbursement data to facilitate informed decision-making and policy evaluation.

Conclusion

India, predominantly rural-based, harbors the majority of its population in rural areas, making the sustainable development of these regions imperative for the nation's overall progress. Recognizing this need, Regional Rural Banks (RRBs) were established to address the credit requirements of rural communities, particularly the underserved rural poor. MRB1 stands out for its significant contributions to the sustainable development of rural areas by providing loans and advances to both priority and non-priority sectors. The research findings highlight MRB1's exemplary commitment to allocating a minimum of 80% of total loan amounts to the priority sector, surpassing even RBI guidelines. Conversely, MRB2's performance in this regard, though commendable, falls slightly below MRB1's, indicating areas for improvement in alignment with regulatory directives. Additionally, MRB1's emphasis on prioritizing loan disbursement to the priority sector over the non-priority sector underscores its dedication to rural sustainable development, albeit with some deviation from RBI instructions. RRBs, including MRB1 and MRB2, play a pivotal role in fostering the sustainable development of the rural economy by providing essential financial assistance. However, there remains a need for closer adherence to regulatory guidelines to ensure optimal utilization of resources and maximize developmental impact. Despite challenges, the research underscores the transformative potential of RRBs in promoting sustainable rural economic development and financial inclusion.

In sum up, the research offers valuable insights into the dynamics of deposit mobilization and loan disbursement in rural banking, highlighting the challenges and opportunities for enhancing the developmental impact of MRBs. Addressing identified gaps and leveraging best practices can empower MRBs to play a more proactive and transformative role in driving sustainable rural economic growth and facilitating financial inclusion for rural communities.

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