CHAPTER-I

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CHAPTER I

Introduction:

1.1 History of Indian Banking:

The word "Bank" is said to be derived from French word "Bancus" or "Banque", i.e. a bench. It is believed that the early bankers, the Jews of Lombardy, transacted their business on benches in the marketplace. Others believe it is derived from German word "Back" meaning a Joint Stock Fund. The modern banking system began with the opening of Bank of England in 1694.¹

Banks have always formed the backbone of an economy – trade, commerce and industry can not survive in this modern or global world without extensive banking facilities. They have done as catalysts for the development and uplift of the vast poverty – stricken masses in this country (India).

Since the time immemorial, banking has been known in India. At that time, there was initially only a system of money lending and varied rate relating to the particular caste to which the borrower belonged but not reference to nature of transaction. Deposit banking was practically unknown then.² However, the origin of banking in India could be traced back to as early as 500 B.C. our Vedas and Manusmrities bear a good testimony to the existence and working of banking system in India.³ After arriving Europeans, Indian banking houses had become more organised.

Bank of Hindustan was the first bank to be established in India in 1770. The East Indian Company set up Bank of Bengal in 1809, Bank of Bombay in 1840...
and Bank of Madras in 1843 as independent units and these banks were known as “Presidency Bank”. These three banks were later merged into Imperial Bank of India in 1919 following a banking crisis. The first bank of limited liability managed by Indians was the Oudh Commercial Bank started in 1881. Earlier in the year 1865, Allahabad Bank was set up as a first time fully Indian owned bank. Punjab National Bank Ltd. was established in 1894 with its office at Anarkali market in Lahore (now in Pakistan). Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank and Bank of Mysore were set up in between 1906 and 1913. Reserve Bank of India came in 1935. The Government of India introduced “The Banking Companies Act, 1949” which was later known as Banking Regulation Act, 1949 as per amending Act of 1965 (Act No. 23 of 1965). After getting Indian independence in 1947, the Reserve Bank of India (RBI) was nationalised and given broader powers.

What is a bank? According to Banking Regulation Act of India 1949, banking is defined as “accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise”.

In simple concept, “bank means a general and some what a vague term applying to a large number of different kinds of financial institutions carrying on one or more of the functions of deposits, discount, investment, advancement and offering other financial service”.
Public sector banks are those in which Government of India (GOI) possesses a major stake. They accounted for more than 70 percent of total banking industry assets and foundation of the India Banking system. On the other hand, private sector banks are those in which Government of India does not have stake. They may be publicly listed and traded on stock exchanges and are witnessing immense growth and progress. They are leader in internet banking, mobile banking, phone banking and Automatic Teller Machines (ATMs). Scheduled banks are those which are entered in the second schedule of RBI Act, 1934.

The Government of India had taken the following steps to regulate banking institutions in the country.

- 1949-Enactment of Banking Regulation Act.
- 1955-Nationalisation of State Bank of India.
- 1959-Nationalisation of State Bank of India (SBI) subsidiaries.
- 1961-Insurance cover extended to deposits.
- 1969-Nationalisation of 14 major banks.
- 1971-Creation of credit guarantee corporation.
- 1975-Creation of Regional Rural Banks.
- 1980-Nationalisation of seven banks with deposits over 200 crore.

After nationalisation of bank, public sector bank enhanced their branches approximately to 800 percent in deposits and advances took a huge jump by 11000 percent. Banking in the sunshine of Government ownership provided the
public implicit faith and immense confidence about the sustainability of this institutions.6

1.2 Background:

In India, rural banking is very important presumed in the present day and for the futures decades increasingly. To develop country, it requires on economic development of villages because India is a rural based country. The father of the nation Mahatma Gandhi had rightly stated that “India lives in her villages and villages constitute the very heart of India”. This has been aptly put by a Hindi poet “Bharat Mata Gram Vasin” which means that Mother India lives in her villages. So, development of rural or village economy is the backbone of Indian economy. In other words, without rural development there can not be sound or substantial basis for a nation to develop. Rele (1978) rightly pointed out “the development of India can not ignore rural development rather rural development should occupy the main focus of the development process in India”. Therefore, the development of rural sector has become one of the important concerns of the country’s five year plans.7 Keeping this end in view, various poverty alleviation programmes on other developmental programmes have been conceived and implemented by the Government of India since commencement of first Five-Years Plan from 1951-56. However, appraisals of the achievement of these programmes have failed to obtain the desired objectives due to lack of adequate finance and unreached to the backwardness economically of the poor of rural masses. Hence, bank or rural bank and other financial institutions are very prominent for upliftment of rural economy of our country. The credit provided by the financial institutions in rural areas may
enable the rural people for better cultivation, establishment of small scale industries and tiny industries, cottage and village industries, handicrafts and expansion of other services to alleviate the poverty and root out unemployment problem etc. that widespread through the rural areas of the country.

1.3 What is Rural Development?

It has been the constant endeavour of the “Planners” to give adequate thrust to total development as the sector is directly to agriculture-still the mainstay for majority of India’s population. Rural development is a base for national development. The term rural is those non-municipal areas of the country, which by and large, are represented by the agricultural productive system and lack certain urban amenities and facilities are rural. Therefore, rural development is an activity or process of both qualitative and quantitative change in the existing system aiming at immediate improvement in standard of living conditions of the rural people or to increase the potential betterment of living conditions in the future. The World Bank defines rural development as the strategy to improve the economic and social life of a specific group of people i.e. the rural poor. It involves extending the benefit of development to the poorest among those who seeks livelihood in the rural area. The groups are agricultural labourers, small scale farmers, marginal farmers, local artisans, tenants and landless labourer’s etc.

To quote from the world banks sector policy paper on rural development, “A national programme of rural development should include a mix of activities
including projects to raise agricultural output, create new employment, improve health and education, expand communication and improve housing”. In brief, it is wrong idea to equate rural development with agricultural development alone, although agriculture may be at the centre of the stage. Rural development is all round development of rural areas with a view to improving the quality of life of rural people. A policy designed to bring about rural development as defined above should incorporate the components stated in the following chart-1.1.

**Chart-1.1**

**Process of rural development**

- Rural Development
  - Agriculture and Allied activities
  - Village Industries
  - Education
  - Services
    - Modernization
      - Technical
        - Artisans
          - Health
            - Dispensary
        - Artisans
          - Technical
            - Training
              - High Yielding Seeds
                - Pest Control
                  - Marketing
                    - Marketing
                      - Agricultural
                        - Workshops
                          - Family Welfare
                            - Guidance
        - Technical
          - Artisans
            - Technical
              - Training
                - High Yielding Seeds
                  - Pest Control
                    - Marketing
                      - Marketing
                        - Agricultural
                          - Workshops
                            - Family Welfare
                              - Guidance

From the chart-1.1, it is depicted that rural development is a systematic approach aiming at total development of the area and the people by bringing about necessary institutional, attitudinal changes and delivering package of services though extensive method to encompass not only the economic field that is development of agriculture and allied activities, rural industries etc., but also the establishment of the required infrastructure and service in the area of health, education, banking, sanitation etc. with a ultimate objective of improving quality of life in rural areas.

1.4 Banking and Rural Development:

Rural development is a sine qua non for national development and welfare of the society. It has been the constant endeavour of the “Planners” to give adequate thrust to rural development as the sector is directly related to agriculture-still the mainstay for the majority of India’s population. Banks have occupied an important place in economic development as they have provided credit which lubricates the wheels of agriculture and allied activities, and industrial enterprises. They have mobilised deposits, disbursed funds to different sectors for productive activities and if they open branches in remote rural areas, they expanded their channel for providing credit to the rural poor people which lead to total development. Capital is a key in adopting new technology and the banking institutions can influence rural development significantly. When banking institutions give suggestion for a new technology, it can automatically make availability of credit assistance to the rural masses to adopt the same. Therefore, it
is said that banks are not just the storehouse of the country's wealth but are reservoirs of resources for economic development.\textsuperscript{11} 

Bank accept deposit from rural masses and extend loans and advances to house holds, Agriculture and allied activities, Small scale industries, Rural artisans, Retail trade and service sector including Small Road Transport Operator (SRTO), House building loan, Priority sector, Non-priority sector, Scheduled Caste (S/C), Scheduled Tribe (S/T), Minority groups, Government schemes and Others (LAD-Loan Against Deposit, LAGS-Loan Against Government Securities, CCL-Customer Consumer Loan and Staff O.D.-Staff Overdraft etc.). Banks form a significant part of the infrastructure essential for breaking of poverty circumstance and promoting economic growth in rural economy. Banks have performed a variety of functions which are common to both rural and urban areas. These functions are known as general banking functions of the banks. Important functions have been performed by banks in rural areas are as below:

1.4.1 Accepting Deposits:

The most important of any financial institutions is to accept deposits from rural people. There are three types of deposits which are as below:

- **Saving Deposits:** This type of deposit is made in the saving bank account of the banks. It is a sort of safety for the rural public with small saving and provides liberal withdrawal facilities. Deposits in this account earn interest at normal rates.
- **Current Deposit:** This account is also known as demand deposits because any sum or any number of withdrawals or claims can be presented by such an account holder. No interest is paid on such deposits rather, the bank impose service charges for running these accounts. The rural businessmen are utilising this facility.

- **Fixed Deposits:** This type of deposit is also known as time deposit since the amount deposited with bank can not be withdrawn before the maturity of the period or date for which they have been contracted. A comparative higher interest is paid on such deposit, rate varying with the length of time for which deposit has been contracted.

1.4.2 Credit Extension:

The second important function of the banks is to extend their credit to total public. There are many form, however some selected among these are as follows:

- Advancing outright loans and advances.
- Giving overdraft facilities to rural businessmen and industrialists.
- Discounting bill of exchange of rural masses.
- In case of RRBs, 24 percent out of total deposits will be Statutory Liquidity Ratio (SLR) and making it compulsory investment in Government securities like current account balance in scheduled commercial bank, Treasury bill and loan to Government etc. Another 4 percent of total deposits will be Cash Reserve Ratio (CRR) which invested to Reserve Bank of India (RBI).
• Banks have charge interest on above borrowing from the rural borrowers and have made profit of such transactions.

1.4.3 As an Agency Functions:

Banks have also performed some functions as an agency for rural developments. Some important among them are as follows:

• Transferred of money from one village to another village, one district to another district and inter state etc.

• Miscellaneous services have been provided by banks such as the issue of traveler’s cheques and gift cheques etc.

• Collection of cheques, bills, draft and other instruments for their depositors and

• Acting as executors and trustees, etc.¹²

1.4.4 Social Functions:

Banks have mobilised idle funds and savings from the rural people and have made them available in the form of productive purpose in rural areas. Not only banks have mobilised savings but also promoted banking habits among the rural public.

• Banks have provided their credit to cater the need of all sections of the communities.

• Providing credit to agriculture and allied activities, small farmers, marginal farmers, small scale industries, rural artisans, retail trade and service sectors, transport operators and house building loans etc.
• Banks are playing very important role in generating employment opportunities by providing credit facilities to unemployed youths who intend to establish small scale or tiny industries in rural areas.

• Banks are very important source of financing to industry and trade in rural areas. They provide essentially short term and medium term loans, and advances to rural industries, trade and agriculture, and thus help to function of the rural economy smoothly.

• To provide assistance in the marketing of agriculture and other product.

• To help in the over all development in rural areas.

1.4.5 Government Schemes:

Along with normal credit disbursement, banks have also participated in financing various Governments – sponsored schemes for the rural development actively. They are Indira Awas Yojana (IAY), Swarnajayanti Gram Swarozgar Yojana (SGSY), Sampurna Grameen Rozgar Yojana (SGRY), Pradhan Mantri Gramodaya Yojana (PMGY), Pradhan Mantri Gram Sadak Yojana (PMGSY) and Integrated Rural Development Programme (IRDP). One of the most important among them is IRDP which was promulgated long back in the year 1978 for eradication of poverty from rural sectors. Thus Financial Institutions (Banks) have performed different functions as analysed above for rural development. When financial assistance is extended to small people in economically backward areas, it will increase the production of goods and service, and generate additional purchasing power. The development process goes on; there will be demand for
new types of services which in turn call for greater investment. Increasing earning capacity and improving standard of living condition of the rural people can be mopped up and would have surplus income which may ultimately come to deposit into the banks. The financial institution involves in rural development sets a chain reaction.

1.5 Financial Institutions for Rural Credit:

The development of institutional arrangements to serve the rural areas has been main concern of the planners and leaders in this country. To bring rural upliftment, it requires providing and supplying of adequate finance to rural masses in time. Indeed, finance is the life blood of the economy and every sector of the national economy needs it. It is not possible to bring or achieve economic development if adequate finance is not available. On the other hand, Indian economy is at subsistence level and therefore, there is a need for out side finance in order to accelerate the pace of economic development. A large number of financial institution networks have been formed and is operating at different level in the rural areas. These institutions are being operated in both cooperative and non-cooperative sector at grass root level, district level and state level.

According to the recommendation of All India Rural Credit Survey Committee constituted in the year 1954, the co-operative credit system was refurnished and strengthened with more stress on agriculture. Commercial banks have stepped into the field of agricultural credit under “the policy of social control over the commercial banks” in 1967. The historical decision to nationalise 14
major Indian scheduled banks with deposits of Rs. 50 crore and above, thereby ushering in July, 1969. Again in 1980, seven private banks with deposits not less than Rs. 200 crores were nationalised with aim to further control the heights of the economy, to meet progressively and serve better needs of the development of the economy and to promote the welfare of the people in conformity with the policy of the state. Since 1988, rural finance the “multy-agency approach” was accepted and implemented including a network of rural financial institutions such as commercial banks and co-operative banks together operating to meet the needs of rural areas. Co-operative credit Institution is an integral part of rural credit system in India and has been serving more than 95 years while commercial banks have been operating not less than 30 years. It has been serving round about 120 million households setting in seven lakhs villages through its 92,000 primary agricultural credit societies, 11,426 branches of short-term cooperatives, 2,213 branches of long-term cooperatives and 32,948 branches of commercial banks. Although, there is growth of expansion of branches of commercial banks along with co-operative credit societies, these institutions however, could not meet the growing demand for rural credit. Establishment of the State Bank in 1955, nationalisation of major commercial bank in 1969 and 1980 provide a significant impact on institutional rural finance. However, due to the high salary structure and urban orientation were supposed to be major hurdle in their efforts to accomplish the social objectives of rural financing. In 1972, it was observed by the Banking Commission that co-operative and commercial banks both were lacking in various ways and would not be able to fill the regional and functional gap in the rural
credit system. The Government of India felt that the small and marginal farmers, rural artisans and agricultural labourers were deprived of the crucial inputs of timely and adequate credit from the institutional sources. Therefore, the Government has been taking elaborate and extensive initiative in both policy and administrative to increase the out reach of formal channel to rural masses.

In such condition, Banking Commission 1972 recommended the establishment of a chain of rural bank in addition to rural branches of commercial banks. Consequently, on July 1975, the Government of India appointed a working group on rural bank under the chairmanship of Mr. M. Narasimham to examine deeply, the establishment of new rural banks as addition to public sector bank to cater the needs of the rural masses. The working group recommended the setting up of state-sponsored, regionally based and rural oriented banks to be known as “Regional Rural Banks (RRBs)”. In the opinion of this group the new organisation will combine “local fell and familiarity with several problems which cooperatives possess and the degree of business organisation, ability to mobilise deposits, access to central money markets and a modern out look which commercial banks have”.

In pursuance of the above recommendation the Government of India promulgated the RRBs ordinance on 26th September, 1975 and the first five RRBs covering nine districts were set up on 2nd October, 1975 at Moradabad and Gorakhpur in Uttar Pradesh, at Bhiwani in Haryana, at Jaipur in Rajasthan and at Malda in West Bengal. Later on, the ordinance was replaced by the RRBs Act, 1976. Thus, RRBs came to be the third component of the multi-agency credit
system for agricultural and rural development in India. The main objectives for setting up RRBs were to boost rural development, to provide credit facilities to small and marginal farmers, landless labourers and rural artisans, to have banking habits in the rural peoples, to help small entrepreneurs in the establishment of industries and to eradicate unemployment of rural areas.

In accordance with the RRB Act, 1976 Manipur Rural Bank (MRB) was established on 28th May, 1981 as a joint undertaking of the Government of India, the Government of Manipur and the United Bank of India (sponsored bank) by contributing share capital at the ratios of 50:15:35. According to the Banking Regulation Act, MRB is a nationalised bank. The main objectives for establishment of MRB is “economic development of the rural people of the state”, particularly the weaker sections.\(^{14}\)

1.6 The Review Committee on RRBs:

The Review Committee on RRBs appointed by the RBI under the chairmanship of Prof. M.L. Dantwala, on 23rd June, 1977. The committee recommended that over a period of time the rural branches of commercial bank be totally replaced by the RRBs. Again, another working group which was known as Kelkar committee in 1984 examined the basic problems of RRBs and made recommendations to improve the viability, efficiency and managerial effectiveness of RRBs. For a general review of the agriculture credit delivery system with the objective of improving the quality of lending, the RBI in consultation with the Government and the World Bank constituted a senior expert
group, A.M. Khusro in August, 1986. This group analysed the causes of weakness of RRBs and recommended the mergers of the RRBs with their sponsor banks. However, the Government rejected the recommendation of the group. Consequently, the Narasimham Committee in 1991 on “financial sector reforms” set up by the Government of India gave recommendation on setting up of rural banking subsidiaries and mergers.

1.7 Importance of rural banking activity:

When we come to the question of banks’ role in rural development, we obviously think of agriculture which sustain a large section of the community in villages and agriculture is the very backbone of any developing economy like our country as majority of the population depends directly or indirectly on it. Following is Honorable Prime Minister, Dr. Man Mohan Singh’s closing remarks at the 53rd meeting of the National Development Council’s Special Session on Food and Agriculture in New Delhi, “We have reached the end of a long and fruitful discussion on the problems of our agriculture sector and possible strategies for revitalizing it in the next few years. The discussion was appropriate in many ways. It has focused out collective attention on agriculture and firmly placed it at the top of our priorities–both at the Centre and in the States. This is as it should be, given that over 60 percent of our people still depend on it for sustenance and livelihood”.

Since many decades, agriculture occupies a place of pride in India. People have got their food from agriculture in various forms. Many large and small
industries depend on it for raw materials. Foreign trades also depend on agriculture as it supplies more for exports. In fact, the development of agriculture is the core of Indian economy. However, the yield from agriculture is very low in many part of the country. This is due to the small and marginal land holdings, use of obsolete and traditional machines and methods, lack of adequate irrigation facilities and above all, one of the most important factors is absence of sufficient finance. The magnitude of rural indebtedness in the country clearly indicated that the Indian peasant is no exception.

On the other hand, Indian is the second place in population in the world next to China. The problem of unemployment is also increasing day by day which gripped Indian economy. It is more serious in rural areas comparison with urban areas. The huge amount of increasing unemployment can be arrested with the help of employment opportunities by promoting agriculture and allied activities like poultry, piggery, fishery, bee-keeping, milch cattle, horticulture, forestry and animal husbandry etc. Besides, it can also be checked by developing, small scale and cottage industries using agricultural products as input (raw material) and encouraging self-employment programme. In these situations, rural bank can play a prominent role and help to attain these goals by providing necessary financial assistance to the rural sectors.

Poverty is also one important problem that causes underdeveloped. It can be defined as a social phenomenon in which a section of the society is unable to fulfill even its basic necessities of life. The planning commission has defined the poverty line on the basis of recommended nutritional requirements of 2,400
calories per person per day for rural areas. In another words, rural poor in India may be known as small and marginal farmers, agricultural wage earners and casual workers engaged in none agricultural activities. It is considered to be the root cause of many problems in the country. Poverty not only erodes the normal life but also makes an atmosphere of inaction and frustration among the people and will ultimately results in social unrest. Due to lack of adequate employment facilities, poverty has become more intense and till remain as an incurable ulcer in the body of rural India. In spite of, this problem various anti poverty schemes and programmes were launched by the Central and State Government under various five-year plans since independence. But no significant changes have been taken place so far. This is also one of reasons resulting in setting up rural bank which can contribute much in the construction of rural economy and alleviation the poverty of rural areas.

One of crucial burning problems in India is rural indebtedness which constrains to become development in rural areas. The villagers are rather forced to borrow money from the village money lender at a high rate of interest year after year due to their poor economic condition. As a result, the villagers are always in a debt trap. This debt trend is being preceded from generation to generation and hence most of the villagers are in debt right from the cradle to grave. That is why the Royal Commission on Agriculture rightly remarked that “the Indian peasant is born in debt, live in debt, dies in debt and bequeaths in debts.” This is also one of the reasons to become farmers’ suicides in some parts of the country (Andhra Pradesh, Maharashtra and Karnataka in few years back occurred farmers’
suicides). The commencement and establishment of rural banks would boost to a great extends in liberating rural masses from the clutches of rural indebtedness. Moreover, rural bank is very beneficial in mobilising the scattered savings of the rural community. Among the villages, some may have surplus or idle fund which lead to unproductive. Rural Bank is one of the financial institutions to mobilise such surplus funds and reinvest these funds to the needy persons for productive and developmental purposes. This rural bank plays a very important role to become rural development of India.

On the other hand, the researcher opined on rural development that it involves raising socio-economic status of the rural people on a sustainable basis through optimum utilisation of local resources, both natural and human. While external help is necessary, rural development can be achieved only when the rural people actively participate in the development process. The villagers should know how to sustain itself financially and gain economic independence. Therefore, the stress of rural development should be on self-reliance. Due to substantial exposure to media, both electronic and print media, the rural sector is stepping (moving) towards self-reliance and economic independence. The ownership of land and other assets has been heavily concentrated in the hands of a few persons. It is precisely for this reason that the benefits of rural development programmes failed to reach the rural people targeted for these benefits to the extent expected.
1.8 Selected Literature Review:

A number of studies have been undertaken by the RBI, Government Agencies or Departments and individual research scholars to assess the role of banking institutions in financing agriculture, small-scale industries and other schemes under the rural development programme over the years in our country. However, still today there is no study relating to “Role of Manipur Rural Bank in the Rural Development of Manipur” has been conducted so far. An endeavour is made to review some selected the relevant literature regarding the financial institutions.

Tejmani and Niranjan\textsuperscript{16} “Role of Regional Rural Banks in the Development of the North Eastern Region: An Overview” in their paper exercised the comparison study of RRBs operating in this region. They concluded that their study would benefit in both bankers and customers.

Baruah (1984)\textsuperscript{17} in his article “Banking in North-Eastern Region” highlighted the situation, atmosphere, main constraints of the region, dealing with banking service, security for advances and control of advances. He emphasised that the scheduled commercial banks operating in this region were doing their best despite handicaps. He recommended simple remedial measures so that all-round improvement could be achieved in course of time.

Singh et al. (1988)\textsuperscript{18} in their book “Rural Banking” examined the performance of different institutional and non-institutional agencies in the field of rural credit at macro level. They concluded that the direct finance disbursed for
agricultural operations by institutional agencies viz., co-operative scheduled commercial banks and regional rural banks etc., among them the co-operatives assisted by the commercial banks and regional rural banks had played a prominent role in catering the rural credit need of the farmers. They suggested that NABARD should exercise a significant influence on the working of these institutions in the country.

Kumar (1989)\textsuperscript{19} in his book “Performance of Regional Rural Banks, Rural Economy of India” observed that regional rural banks succeeded to a large extent in banking services to the rural poor people particularly unbanked and under-banked areas. However, an imbalance between the investment credit and production credit was observed. He further recommended that all the primary agricultural cooperative credit societies and the rural branches of commercial banks should be brought under the fold of regional rural banks to avoid unnecessary competition inefficiency and to have sound rural credit system in India.

Desai (1989)\textsuperscript{20} in his article “Objective and Role of Institutional Finance for Agricultural and Rural Development” identified the lacunae of extending of rural institutional finance to the selective rural institutional finance to the selective purpose. He further discussed to overcome these lacunae and to achieve the objectives of high rural growth, better equity and viability of institutional finance.

Kanhaiya (1990)\textsuperscript{21} in his paper “Restructuring Regional Rural Banks” observed that need for reorganisation and restructuring, pointed out some
advantages of merger and concluded that merger would greatly help the rural people a tremendous growth and significant changes could be visualized in the rural scenario.

Velayudhan and Sankaranarayanan (September 22, 1996)\textsuperscript{22} in their paper “Regional Rural Banks and Rural Credit-Some Issues” analysed in detail issues of RRBs. The issues involved in the controversy include non-viability of the RRBs and the question of parity of their staffs’ pay scales and service condition with those of commercial banks, emerged advocated merger of the RRBs with their sponsor banks. They further examined the role and problems of these banks in perspective and draws inferences to aid policy formation.

Krishnan (1990)\textsuperscript{23} in his article “Regional Rural Bank and Rural Development” opined the regional rural banks have contributed to a great extend to the development of banking habits among the rural poor masses through the expansion of branches and better customers service. He recommended overcoming the hindrances so that the satisfactory level of rural development to be achieved.

Baidynath (1995)\textsuperscript{24} in his article “Banking and Rural development (with special reference to Orissa)” observed that nationalised banks had done a commendable job in branch expansion, deposit mobilisation and credit expansion even in rural areas. However, they had not so far succeeded in abolishing poverty or even improving the economic lot of the poor. He opined that rural development was a gigantic problems credit alone could not solve the problem. Banks could do
a lot more in achieving the social and economic objectives of nationalisation provided that there was an over-all improvement in efficiency of management, flexibility in section of long and genuine desire on the part of the staff to help the weaker sections and backward regions.

Sathye (1995)\textsuperscript{25} in his article “Decision Making in RRB: Use of MIS” analysed- loaning decision, investment decision, financial decision, borrowing decision, operating expenses, recycling of funds and decision about personnel etc.

Maheshwari (1995)\textsuperscript{26} in his book “Rural Development in India” observed the important relationship of India development and agriculture growth, interesting leadership of international organisations for rural development and importance of rural credit etc.

Ramachandra et al. (1998)\textsuperscript{27} in their articles “Growth and Performance of Regional Rural Banks in India” analysed the performance of RRBs in terms of growth, agriculture finance and loan recovery at all India’s level.

Kaushik (1999)\textsuperscript{28} in his study “Productivity of RRBs Credit in Haryana” found that an inverse link between credit assets and credit productivity has been established due to low-income generation, lack of appropriate skill and infrastructure facilities. He suggested that the RRBs should apply adequate credit along with skill and training facilities to the beneficiaries.

Deshpande and Shrivastava (2000)\textsuperscript{29} in their article “Regional Rural Banks” analysed-business growth and other parameters like deposit and advances
growth, improvement on recovery and NPAs front, reasons for turn around and seeking the reasons of one third of RRBs were in loss.

Rayashekar (2000)\textsuperscript{30} observed in his book entitle "Commercial Banking and Finance" that the various aspects of commercial banking in India and their pattern of expansion, mobilisation of deposits, credit disbursement, and recovery of bank credit along with factors affecting the loan recovery process.

Patel (2001)\textsuperscript{31} in his article "Rural Credit system-Need for Restructuring" appreciated the present status of rural credit structure in respect of credit disbursal, recovery performances and building up of Non Performing Assets etc. However, he recommended that an appropriate policy paper should have to be prepared by the Union Government in consultation with the concerned Ministries, RBI, NABARD, IDBI and State Government and after thorough discussion, strategy to implement the plans and programmes should be formulated so that credit institutions could simultaneously support area based development projects.

Rajagopalan (2001)\textsuperscript{32} "e-Banking: The Indian Scenario" in his paper observed the e-banking evolution, its necessity, advantages to Accounts, Electronic Funds Transfer, Automatic Teller Machines, benefits to banks and emergence of mobile banking. He concluded that a large number of both private and public sector banks started taking best advantageous of the e-banking business.

Ranjit and Kalipada (2002)\textsuperscript{33} in their article "Recovery and Overdue problems of RRBs with particular reference to Uttar Banga Kshetriya Gramin
Bank" analysed the causes of defaults from the view point of both borrowers and bank staff and pointed out some common factors like, default wilfully and faulty or wrong selection of scheme which affected the recovery of due. They concluded the main factor to the unhealthy situation of the RRBs was that the credit delivery system had not produced desired result. The successful management of rural credit specially the RRBs requires selection of appropriate beneficiaries, constant monitoring for proper utilisation of loan, time bound repayment, cost effectiveness, reduction of over dues and non performing assets, increase of staff productivity, maintaining circular flow of credit, accountability responsibility and motivational improvement. The recovery management of banks also needs to be improved a lot by making continuous link with the borrowers in post disbursement stage.

Kausick (2003)\textsuperscript{34} in his essay "Can the Ordinance Recover NPAs?" examined that the financing pattern of the Indian commercial sector, how an NPA was defined, classified and provided for according to banking norms, the scale of the NPA accumulation. He opined that ordinance had the power to recover NPAs.

Sivaloganathan (2004)\textsuperscript{35} in his article "Problems in the Recovery of Rural Credit" observed that the causes of over dues and strategies to strengthen overdue recovery etc.

Jayanta (2004)\textsuperscript{36} in his article entitles "Rural Credit Scenario in North East India" had analysed the rural credit in north east India. He pointed out that credit deposit ratio of entire state of north east states were lag of behind the national
ratio and due to high cost of operation of bank and very high transaction cost both for borrower and the banks, it was perhaps not feasible for the commercial banks to provide micro credit in the area of the region. It was also disclosed that Government sponsored SGSY with subsidy was also proving a hurdle achieving the basic objective of SGSY movement in north east India.

Ramakrishna and Sree (2004)\textsuperscript{17} in their paper “An Appraisal of Indian Banking from NPA perspective” observed from the view point of Indian Banking from NPA and its impact on banking performance, identified NPA, classification of assets, how to manage NPA and its effective management.

Rehman and Mishra (2004)\textsuperscript{18} in their article “Productivity and Profitability of the Nagaland Rural Bank” had made an endeavour a brief profile of this bank and given main emphasis on the study of the productivity and profitability of the bank.

Narasaiah and Sudarsana (2005)\textsuperscript{19} in their paper “Regional Rural Banks- The current Scenario” made an endeavour to review critically the performance and assess the operating efficiency of RRBs.

Valsamma (2005)\textsuperscript{20} “Regional Rural Banks as Champions of Rural Credit” depicted in his article that organised lending through Government institutions was to be reinforced to help the village recover from debt and poverty and improve employment and productivity. For these purpose, the RRBs were specially suited to work solely in the rural areas to channelise funds and monitor regional development. It needs synergy of these institutions, policies and projects to
achieve the overall growth of the region. A target-oriented, time bound realistic and regional approach was needed for optimum results.

Anurag (2005)\textsuperscript{47} in his article “Regional Rural Banks (RRBs)” studied the reasons for establishment of RRB and analysed its objectives, expansion of branch, financial performance, and viability status and recovery performance. He concluded that change in ownership and capital structure of RRBs, restructuring of RRBs on socio-economic basis, concrete steps to improve their recovery performance and introduction of technological improvement in RRBs.

Mathur (2005)\textsuperscript{42} in his book “Management of Non-Performing Assets” had made an effort to presents information in detailed dealing with loan assets held by commercial banks including public sector banks- old and new private sector banks- co-operative banks and development banks focusing on- total magnitude of the non-performing assets – position of individual banks processing NPAs – privileges enjoyed by bank made an endeavour for bringing down the amount of NPAs.

Saghir and Nisar (2006)\textsuperscript{43} attempted in their article “Banking Sector Reforms: Achievements and Future Challenges” to examine the performance of scheduled commercial banks in general and public sector banks in particular during the post-reform period. The participation of banks in rural areas during the pre and post reform periods had specially been examined so as to see the impact of reform on rural banking.

Pushpa and Thakur (2006)\textsuperscript{44} in their article “Online Banking a Changing
Scenario of Banking Industry” analysed the banking industry dramatically changed in technology. The bank provided various services with the help of technology. They discussed about the types of online banking, advantage to customers and banks, Indian perspective and its future.

Shiralashetu and Akash (2006) in their article “Management of Non-Performing Assets in Commercial Banks—some issues” analysed the bank-wise non-performing assets, gross and net non-performing assets to total assets, advances and sector wise non performing assets etc.

Sunil and Ashvine (2006) in their paper “Role of PR in Reducing NPAs in Banks” observed that the NPAs of banks have been rising for a variety of reasons. One of the most under-explored areas was the role of the PR personnel in reducing the NPA. He had tried to examine the current situation of the banks with respect of NPAs and the consequences of further increase. Even a small decrease in NPAs could lead to healthier bottom-lines for the bank.

Varughese and Thomas (2006) in their article “Non-performing assets in Indian Banking Sector: A study of Recovery through DRTs” analysed that the prudential norms introduced in the banking sector had a positive impact in reducing the volume of NPA in the Balance Sheets of banks. The reduction was mainly effected by making provision against the NPA in the books and thereafter by the technical write off. In their study, it showed that the recovery through the speedy process of DRT was very meager. Therefore, it could be inferred that the bulk of the NPA in the banking sector remains as economic cost to the nation.
Sundar (2007)\textsuperscript{48} in his article “Profit Banking – Strategies and Implications” analysed NPA management, asset liability management, information technology for better MIS, manpower planning, cost control risk management and bank marketing.

Satish (2007)\textsuperscript{49} in his paper “Indian Banking Industry–Evaluation of Financial Performance” observed the performance of private sector banks, foreign banks and public sector banks. He concluded that private sector and foreign banks were highly appreciable than that of public sector banks. These categories of banks best used the technology to their advantages.

Mohan and Ananthan (2007)\textsuperscript{50} in their article “NPA in Public Sector Banks: Causes and Cures an analysis of Managers’ perception” analysed–NPAs in India PSBs, why loan become NPAs? How NPA recoveries could be improved? How to control NPAs? And they had given suggestion regarding the response for the issue of causes for accounts becoming NPAs, responses for the issue of suggestions to improve NPAs recoveries and recommendation to control NPAs bet.

Bhaktapada (2007)\textsuperscript{51} in his book “Rural Banking and Poverty Alleviation” had made case study of the RRBs, seek to test how far objective of RRBs had been achieved. It involved field investigation into the working of RRBs of West Bengal. The progress of each of the Gramin Bank in respect of items of capital, deposit, advances, income and expenditure, profit and loss, branch expansion, loaning operations and recovery performance was reviewed. In short, the study
attempted a critical evaluation of the structure and functioning of RRBs of West Bengal.

Nida (2007)\textsuperscript{12} in his article “RRBs: An analysis of their performance” analysed relating to profits, losses, accumulated losses, NPAs, deposits, disbursement of loan, C.D. ratio and problems of RRBs etc. He opined that the low recovery of advances were the major area of concern as a substantial chunk of resource remained locked and further development of credit was adversely affected.

Tejmani (2008)\textsuperscript{13} “Banking Scenario in Manipur”, highlighted in his article that a few issues were relating to banking scenario in the Manipur like a peep into banking scenario in Manipur and north east India, issue relating to profit planning in banks, issue concerning with improving low or cost deposit and issues of recovery management. These issues were identified on the author’s interactions with banks executives and various report or papers volume of RBI, Economic Survey of Manipur and Economic and Statistics, Government of Manipur.

Mall and Shalini (2008)\textsuperscript{14} in their article “Asset-Liability Management in Bank – A study of maturity gap analysis for measuring interest rate risk in banks” opined that banks required sophisticated analytical tools so that they could analyse asset liability management (ALM) deeply which would help in managing their assets and liabilities.

Vasam (2008)\textsuperscript{15} in his article “Case for De-Amalgamation of Regional Rural Banks” condemned the amalgamation of regional rural banks. He depicted
that amalgamation would be a death blow to the credit-starved rural poor, most of whom were small and marginal farmers, agriculture and landless labourers, and local artisans.

Joyeeta (2009) in his article “Efficiency study of Bank branches in north east India in the post reform Era” studied the performance of banks operating in north eastern states and the branches performance was must below the aggregate performance of the banks at national level. He tried to identify the performance of bank branches through analysis of certain important ratio on 60 selected bank branches over the period of 5 years from 2003-2007. The result indicated that the overall performance of these branches when compared with the national figures, in term of C.D ratio, interest spread, ROA, OPR etc. was far below satisfactory. But the north east branches seem to have diversified their activities and non-interest incomes represent a considerable portion of their total income.

Rasure (2010) in his article “Rural credit and in the Era of Globalisation” opined the important of rural credit for the upliftment of the weaker sections. He further analysed organisation and management of RRBs, RRBs versus commercial bank, rural finance, and problems faced, and suggested some policies.

Manas (2011) in his book “Rural Banking in India” observed the history and significance of rural banking in India, development of RRBs in India, conceptual issues related to RRBs, institutional financing for rural credit in India, performance of RRBs as a region-wise analysis etc.

The above cited reviews of literature have concentrated in one part or
another in India and did not mention of Manipur Rural Bank. The present study is therefore, one of its own kinds and makes an endeavour to study “Role of MRB in the Rural Development of Manipur”. It has also been studied the response of Bank officials’ and beneficiaries’ response (rural masses) to the activities of the bank.

1.9 Significance of the Study:

MRB is operating its business in the entire state of Manipur. The bank has been functioning with a network of 29 (2 branches were merged in 2006) branches up to 2006 and after that 27 branches spread over in all the 9 (nine) districts of the state. Albeit, many commercial and cooperative bank branches are operating in this state, they are mainly concentrated in the urban and semi-urban areas. The services of these banks are available meagerly in the rural masses of the state. As a result, the rural people can not always receive the bank credit benefit for their socio-economic development. Therefore, MRB has been taking important role to reach the financial assistance to rural people because most of its branches operating in rural and remote areas of the Manipur state.

The particular topic has been taken up because there is a possibility of correlation between the growth of rural banking and economic development in rural areas. The economic backwardness of the state and India vision 2020 has led the researcher to search about the causes of drag in economic growth and there is probability of India vision 2020 in this industrially and economically backward state.
1.10 Objective of the Study:

The main objectives of the present study are,

- To evaluate the performance of MRB in Manipur.
- To analyse branch level performance of MRB.
- To identify the impact on working performance of MRB.
- To interpret and analysis of field survey.
- To make suitable policies recommendation concerning the role and working of MRB so as to contribute more to the economic development of the state.

1.11 Statement of the problem:

India is a rural based country. Hence, she can not become a develop country without the development of her rural areas. To develop socio-economic development of rural masses, it requires catering the need of rural credit. Generally, the biggest problem faced by the rural poor are the unavailability of adequate financing facilities and lack of employment opportunities. It is not a very easy task for the rural people to raise or to get their needed capital at the time of their need. The private money lenders also support the poor people, but they charged high rate of interest. On the other hand, it was realised that the bank finance was not available in adequate measures to the weaker section of rural areas. Commercial banks and co-operative credit societies were lacking in different ways and could not fill the regional and functional gap in the rural credit system. In such situation, the Government of India appointed a working group on
“Rural Banks” under the chairmanship of Mr. M. Narasimham to examine in depth the setting up of new rural banks as subsidiaries of public sector banks to cater to the needs of the rural people i.e. RRB. So, the rural poor expect higher loans from the public sector banks particularly from RRBs. But MRB prefer to lend to middle men and rich people because of many reasons. The main reasons are most of the poor people could not repay the loan amounts in time, failure to provide adequate collateral securities, failure to prove their credit worthiness and wilful defaulters etc. Hence, it needs to analyse the role of MRB for the socio-economic development of rural masses. This study has made an attempt to analyse the performance and working of MRB regarding deposit mobilisation, advances, credit deposit ratio, credit management, recovery performance, non performing assets, profit and loss and its expectation for future rural development and from the view points of beneficiaries about the credit system. They are the real performance evaluation of the banks to judge the performance of bank in providing rural credit.

1.12 Scope of the Study:

The present study has been conducted whole Manipur state. The MRB has been operating its branches over the all 9 (nine) districts of the state. The facts and figures of the bank for last 10 (ten) years that is from 1999-00 to 2008-09 has been taken into consideration for the present study and an endeavour to evaluate how far the bank is able to accomplish its basic objectives. The approach of study has been fabricated from the point of view of both the bank employees and beneficiaries.
1.13 Hypothesis:

Following hypotheses are made either validity or negations which have been examined during the course of the study.

- MRB has been playing an important role in deposit mobilisation and extension of credit to the rural masses of the state.
- MRB having good response to the various rural development plans and programmes initiated by the state and central government in this state.
- The assistance provided by MRB has satisfactorily promoted the assets creation, generate income and employment and improve the standard of living among the rural poor.
- MRB has been facing various kinds of problems in the sphere of achievement of its objectives.
- The low profitability of the MRB in different branches is mainly due to high level on non-performing assets and its operation in the area where level of business growth is low.

1.14 Methodology of the Study:

The present research work is based on both primary and secondary data to examine the objectives of the study.

Primary data have been collected through personal interview. It is conducted with the bank employees and selected beneficiaries of MRB by using well-designed questionnaires. Further, it has been supplemented through informal discussions held with chairman, senior managers, branch managers and other
staffs of MRB at Head Office and branch levels. A field survey has also been conducted covering whole operational area of the bank. 22 officers (including senior managers of head office) and 227 beneficiaries have been interviewed to collect information regarding i) MRB: source of fund, deposits, disbursement of loan, C.D. ratio, recovery performance, income earned, expenditure incurred, profitability and position of NPAs etc. ii) Beneficiaries: Problems faced when taken loan, utilisation pattern of bank loan, capability of repayment of loan, whether improvement in standard of living or not after getting loan amount etc.

- **Secondary data** have been compiled from annual report of MRB, reports and various publications of RRBs, economic survey and statistical publications year book of Manipur, publication of National Bank for Agriculture and Rural Development (NABARD), Reserve Bank of India (RBI) bulletin, various published books, Government reports, Committee report on banking, Internet websites and other related research articles published in different national and international journals.

1.15 Tools used:

Interview schedule is the main research tool used in this study. Primary and Secondary data collected have been analysed by using various statistical tools like regression, comparative study, ratio, t-test, F-test, P-value, standard deviation, post-hoc test (Tukey) and new software called SPSS which provides more accuracy to study. For better presentation of the data, the study has been utilised pie chart too.
1.16 Period of the Study:

The research work has been covered for a period of 10 (ten) years duration commencing from 1999-00 to 2008-09.

1.17 Limitation of the Study:

Apart from the limitation of time, energy, non-response and due to deteriorating law and order situation in this state, collection of primary data from most of the remotest hill areas have been faced inconvenience and total number of respondent of beneficiaries 227 and bank Managers and Officers 22 only.

1.18 Scheme of the study:

The schematic arrangement of the study is as follows:

Chapter-I. Introduction: General idea of the study and research methodology.

Chapter-II. Genesis and Organisational pattern of RRBs.

Chapter-III. Performance of MRB in Manipur.

Chapter-IV. Performance analysis of branch level of MRB.

Chapter-V. Impact on working of MRB of rural economy.

Chapter-VI. Statistical Analysis and Interpretation of Field survey.

Chapter-VII. Conclusion, Summary of Findings and policies recommendation.
1.19 Expected contribution of the Study:

The study about “Role of Manipur Rural Bank in the Rural Development of Manipur” will be beneficial to the bank and its customer’s particularly landless labourer, agricultural labourers, local artisans and small entrepreneurs etc. The customer will be familiar to old and new avenues in agricultural and allied sector, SSIs, and tiny sector and MRB. It makes easy link with bank by them to seek their short term and medium term credit policies. The study would be very prominent to bring the MRB back from their moribund status into the viable and vibrant part of the institutional credit delivery system to cater the need of rural customers. Indeed, numerous constraints have prevented the RRBs from performing their role as low cost institutional device in remote rural areas. Factors which can determine cost of operations seem to be beyond the control of RRBs. Their operational expenses have been rising at a higher rate than the rate of growth of earning, as a result of it, the low cost of profit (which they expected to maintain) has not been achieved. Since, the RRBs are expected to operate on low spreads or margins because of their obligation to lend to weaker sections at low rates of interest and pay a little scope for cross subsidization. These constraints would be minimised or even try to solve by the study. Therefore, it is also believed that the development of India lies in the development of rural masses in the process of structural reform in the long run.
References:


