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Performance of Mizoram Rural Bank: A study of Pre and Post Amalgamation Period

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Abstract

Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1976 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilized financial resources from rural / semi-urban areas and granted loans and advances mostly to small and marginal farmers, agricultural labourers and rural artisans.

As a part of the downsizing process of public sector organisations, the government of India in consultation with sponsor banks (mostly public sector banks) and the National Bank for Agriculture and Rural Development (NABARD) took a decision to amalgamate the 196 regional rural banks (RRBs). As a result of the amalgamation, 145 out of 196 RRBs were amalgamated to form 45 new RRBs by March 3, 2005. Several changes have taken place in the focus and operation of the Regional Rural Banks in the wake of financial sector reforms in India and various measures have been taken by the Government to improve the commercial viability of RRBs since 1994-95. Since Mizoram has only one RRB i.e. Mizoram Rural Bank, there cannot be any amalgamation as such. But, the present paper shall try to study the performance of Mizoram Rural Bank in the pre and post amalgamation period. It is diagnostic and exploratory in nature and makes use of secondary data.

Key Words: *Rural Banks, Bank Performance, Amalgamation Period*

1.1 Introduction

Rural development in India is sine-qua-non of overall development. Scarcity of capital, shortage of investment opportunities, disguised unemployment, vicious circle of poverty are some generic issues calling for immediate steps to bring drastic changes in the usual picture of rural economy of India. In this series a need was also being felt to establish a credit agency that could combine the resource orientation of commercial banks and rural orientation of co-operatives. As a result of this, in 1975, five Regional Rural Banks (RRBs) came into existence through promulgation of Regional Rural Banks Ordinance (Sharma, Nishi: 2012).

Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1976 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilize financial resources from rural / semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural labourers and rural artisans. The area of operation of RRBs is limited to the area as notified by Government of India covering one or more districts in the State.

1.2 Regional rural Banks in India Pre and Post amalgamation

As a part of the downsizing process of public sector organisations, the government of India in consultation with sponsor banks (mostly public sector banks) and the National Bank for Agriculture and Rural Development (NABARD) took a decision to amalgamate the 196 regional rural banks (RRBs). The process of amalgamation commenced in September 2005 and it is expected to be completed by March 2008. As a result of the amalgamation, the number of RRBs has been reduced from 196 as on 31 March 2005 to 92 as on 31 December 2007.

The proposals for amalgamating the remaining RRBs are still in the pipeline. The decision to amalgamate RRBs is a death blow to the credit-starved rural poor comprising scheduled castes, scheduled tribes, backward classes and other weaker sections. Most of these poor people are small farmers, marginal farmers, agricultural labourers, landless labourers, rural artisans, small business entrepreneurs, etc. The decision to amalgamate has been executed by the GOI by issuing a series of notifications in the *Gazette of India – Extraordinary* "in the public interest", "the development of the area served by the concerned RRBs" and "in the interests of RRBs themselves" (GOI: 2005).

The total number of Regional Rural Banks (RRBs) decreased from 92 to 82 at the end of March 2010. This reduction has resulted due to the amalgamation process of these banks which was introduced by RBI on 2005 (RBI: 2010). This total number is still the same till today.

Several changes have taken place in the focus and operation of the Regional Rural Banks in the wake of financial sector reforms in India and various measures have been taken by the Government to improve the commercial viability of RRBs since 1994-95. So it has been considered appropriate to study the performance after amalgamation which took place in the year 2006 (Ibrahim, Syed: 2010).

The central government had, in September 2009, constituted a committee (Chairman: Dr. K.C. Chakrabarty) to study the current level of CRAR of RRBs and to suggest a roadmap for enhancing the same to 9 per cent level by March 31, 2012. The committee submitted its report to the government on April 30, 2010. The committee has assessed that 40 RRBs (out of 82) will require capital infusion to the extent of `22 billion. The reports received from NABARD show that as on June 6, 2012, 16 RRBs have been recapitalised fully whereas in 11 RRBs, the recapitalisation process is underway. To complete the process, the recapitalisation scheme has been extended up to 2013-14(Report of CBD on the working of RBI: 2012).

A study of the efficiency and its performance of the RRB are particularly important in the Indian context. Since, MRB is the only rural bank in the state of Mizoram. Even though

MRB is not included among the amalgamated RRBs by Government of India, by using the period of the amalgamation i.e., the year of 2005 the present study analyze the performance of Mizoram Rural Bank (MRB) during pre and post-amalgamation periods. The indicators selected during the last two decades from 2000-05 and 2005-10 of the Mizoram Rural Bank and its branches, deposits mobilization, loans outstanding and credit-deposit ratios.

1.3 Literature Review

The literature available in the working and performance MRB in Mizoram is very limited. The literature obtained by investigators in the form of research studies, articles of researchers and related books published reviewed in this part.

Abdul Hadi & Kanak Kanti Bagchi (2006), in their study on performance of regional rural banks in West Bengal finds that RRBs in the state have been participating actively in various programmes designed for providing credit assistance to priority sectors, and concluded that most of the RRBs in the state have performed well and improved their performance.

Arvinder Singh chawla (1986) has studies banking developments in Patiala distirct with special reference to branch expansion, deposit mobilization, credit deployment, priority sector lending and poverty alleviation programmes. It concluded that, although imbalance in banking presence continues to exist, a clear trend in reduction of inter-block disparities is observed.

Ibrahim, Syed, M (2010), in his study on the performance Evaluation of Regional rural banks in India and concluded that regional rural banks in India showed a remarkable performance in the post-merger period.

Vanlalkulhpuia and Nixon (2011), in their study on the topic of Role of Mizoram Rural Bank in Proving Financial Services highlights that performance of MRB on loan and advances disbursed to priority sector provide a good picture over study period and concluded that MRB still need to improve their performance in the state.

As none of these study conducted on the performance of MRB, during the pre and post- amalgamation period. There is need for carrying out the present study.

1.4 Methodology and Research Design

The present study is diagnostic and exploratory in nature and makes use of secondary data. Since the state of Mizoram having only one RRB i.e., MRB, then there is no amalgamation took place in the state but the transformation year is used to analyse the performance. The relevant secondary data have been collected mainly through the data bases of various reports published by Mizoram Rural Banks and various journals published. The study is confined only to the specific areas like number of branches, district coverage, deposits mobilized, credits and investments made by the Mizoram Rural Bank (MRB) for the ten years period starting from 2000-01 to the year 2009-10. The present study using only the period of amalgamation which is taken by government of India in the year 2005 like, pre (i.e.,2000-2005) and post-amalgamation period (i.e., 2005-10). In order to analyze the data and draw conclusions in this study, various statistical tools like, t-test and F-test have been accomplished through EXCEL and SPSS Software.

1.5 Hypothesis

H_1: There is no significant difference in Loan and advances during the study period.

H_2: There is no significant difference in agricultural Sector lending in the pre and post amalgamation period.

H_3: There is no significant difference in Industrial Sector lending in the pre and post amalgamation period.

H_4: There is no significant difference in Services Sector lending in the pre and post amalgamation period.

1.6 Findings of the study

a. Performance of Mizoram Rural Bank (MRB)

Mizoram Rural Bank was set up on 27th September 1983 under the Regional Rural Bank Act 1975. It is perhaps the only RRB in the country to be spread out in all the districts and blocks of the State. It covers 8 districts and 25 RD blocks including 1 urban and 11 semi urban centers. The entire State populations are 8.89 lakhs as per 2001 census and the area is 21000. sq.km. About 66% of the state is covered by forests and the mainstay of occupation is agriculture. Mizoram became a State as late as in 1986 yet its literacy percentage is 85.50%, the second highest in the country.

MRB is the second largest bank in the State next to the State Bank of India which is also the sponsoring bank and more than 50% of the aggregate figures of all banks operating in the state. It has a market share of 8.55% in deposits and 17.64% in advances. (MRB Annual reports 2000-10). The paid up share capital of Rs 602.76 lakhs have been contributed by all the share holders, Government of India, Government of Mizoram and State Bank of India (Sponsor Bank) in the ratio of 50:35:15. In addition to this, an additional equity share capital of 301.06 lakhs towards equity support for the purpose of cleansing of the balance sheet has received from the share holders. The paid up share capital and equity support received from the share holders are as given below:

Table: 1 Contribution made by Sponsors (` *In Lakhs Rs.*)

Sl/no	Sponsors	% of Share	Paid up capital	Equity Support	Total
1	Govt. of India	50%	301.38	150.53	451.91
2	State Bank of India	35%	210.97	105.37	316.34
3	Govt. of Mizoram	15%	90.41	45.16	135.57
	TOTAL	**100%**	**602.76**	**301.06**	**903.82**

Source: Mizoram Rural Bank 18th Annual Report 2000-2010

Since its inception, the Bank is striving hard to achieve its set objectives by serving throughout the entire state of Mizoram covering all the 8 (eight) districts and 25 Rural Development Blocks. The Bank has now extended its coverage to 11 urban and 11 semi-urban centres. The Bank has a net-work of 61 branches covering all the eight districts of the state of Mizoram. The district-wise break-up of branch network as on 31.03.2010 are as under:

Table: 2 District - Wise No. of Branches in Mizoram as on 31.03.2010

Sl.No	No of Districts	Branches	Urban	Semi urban	Rural
1	Aizawl	22	11		11
2	Lunglei	8		3	5
3	Champhai	8		1	7
4	Kolasib	6		2	4
5	Mamit	6		1	5
6	Serchhip	6		2	4
7	Saiha	2		1	1
8	Lawngtlai	3		1	2
Total		**61**	**11**	**11**	**39**

Source: MRB Annual Reports 2000-2010
Mizoram Statistical Hand book Published by GoM 2010

The number of rural branches is much higher than the other commercial banks in the State that is why MRB plays an important role in the state. From the above table, it is evident that there is still need for setting up additional branches in the districts of *Saiha* and *Lawngtlai*. The following table no.3 displayed that the growth rate of branch expansion of MRB and then the simple linear regression function is used to find out the growth rate of branches from the established year (1983) to 2010 under follows:

Table-3 Branch Expansion by Mizoram Rural Bank (1983-2010)

Year	Number of branches opened during a year	Total Number of Branches
1983-86	31	31
1986-90	7	38
1990-94	4	42
1994-98	7	49
1998-02	0	49
2002-06	0	49
2006-10	12	61

Source: Annual Report of the MRB

The number of branches opened was nil in the years 1998-02 and 2002-06. Since 2006-10 the number of branches opened has shown a declining trend. But, MRB covered all the districts of the state and opened 39 branches in rural areas of the state. Branch expansion is generally topography, infrastructural facilities available, level of socio-economic development and attitude of people in the area concerned. The attitude of people is governed by the level of education (Kalkundrikar, A.B: 1990). The literacy ratio is high in the state of Mizoram with compared to other states of India-4.

Tale-4 Trends in the growth of Branches of MRB from 1983-2010

Year (X)	Variable (Y)	X=x-(1994-98) (Central Value)	Yx Product	X^2	$\hat{Y}$
1983-86	31	-3	-93	9	32.82142
1986-90	38	-2	-76	4	37.07142
1990-94	42	-1	-42	1	41.32142
1994-98	49	0	0	0	45.57142
1998-02	49	1	49	1	49.72142
2002-06	49	2	98	4	53.97142
2006-19	61	3	183	9	58.22142
n=7	**319**		**119**	**28**	Annual growth rate **4.25%**

Since linear regression is indicated by;

$$Y = a + bx,$$

The normal equations are:

$$\sum Y = na + b\sum x \quad \ldots\ldots\ldots\ldots \text{(i)}$$

$$XY = a\sum x + b\sum x^2 \quad \ldots\ldots\ldots\ldots\text{(ii)}$$

Substituting the values obtained, we get

$$\sum Y = na + b\sum x$$

$$144 = 7a + b\sum x$$

Therefore, $a = 319/7$

$$= 45.57142 \quad \ldots\ldots\ldots\ldots\text{(iii)}$$

$$\sum XY = a\sum x + b\sum x^2$$

$$144 = 0a + b28$$

Therefore, $b = 119/28$

= **4.25** (Annual average rate of growth of MRB branches in the state)

b. Credit Deposit Ratio of Mizoram Rural Bank (MRB)

A ratio of aggregate outstanding advances and aggregate outstanding deposits multiplied by hundred is called Credit-Deposit (CD) ratio. This ratio indicates the extent of deployment and utilization of resources by bank, and issued for evaluating the performance of a bank. According to Hasmoni (2002) "This measure acts as an indirect means of assessing the monetary management by the bank." Regional Rural Banks are required to deploy credit for the financial assistance to the weaker sections residing in their jurisdiction and to decrease the rural urban disparities. As can be seen from above, Mizoram Rural Bank serves the rural populace o the state much more than the other financial institutions in the state. Table-4 gives the scenario of credit-deposit ratios of total business of MRB during the financial years 2000-2001 to 2009-2010. The data revealed that the changing trends of MRB during the last decade in terms of increase in public deposits and credit availed by the public. CD ratio was maximum in 2006-2007 (65.38 percent) as compared to 2002-2003 (32.76 percent) which was the least in the period in this the present study.

Table-5 Aggregate Total Deposits and Credit as on 31.03.2000 and 31.03.2011

No. of Years	Deposits	Credits	C.D Ratio
2000-01	505177	175579	35%
2001-02	683434	230091	33.67%
2002-03	860809	281969	32.76%
2003-04	1007068	337272	33.49%
2004-05	1245462	502624	40.36%
2005-06	1471026	802074	54.52%
2006-07	1660182	184427	65.38%
2007-08	1988504	1283307	64.54%
2008-09	2831902	1610642	56.87%
2009-10	3262356	1771272	54.29%

Source: Mizoram Rural Bank Annual Reports 2000-2010

The bank achieved aggregate deposits of Rs 47676.33 lakhs as on 31st March 2010 against the budgeted level of Rs 40779.00 lakhs projected for the year ending. *(Reports 2009-2010)* in this situation the bank registered a positive growth of Rs 15052.77 lakhs over last year's level of Rs. 32623.56 lakhs which is a growth of 46%. The test result of the performance between pre and post amalgamation period of credit deposit ratio of Mizoram Rural Bank are given in the following table no 6.

Table-6 t-Test: Paired Two Sample for Means

	Pre- amalgamation	Post-amalgamation
Mean	0.35056	0.5912
Variance	0.000944513	0.002952885
Observations	5	5
Pearson Correlation	-0.643066394	
Hypothesized Mean Difference	0	
Df	4	
t Stat	-6.920606298	
P(T<=t) one-tail	0.0011439	
t Critical one-tail	2.131846782	
P(T<=t) two-tail	0.002287801	
t Critical two-tail	2.776445105	

Table-6 provides the result that there is strong evidence that ('t' is < 2.776445105), H_1 is accepted. Hence, there is no difference in performance of credit deposit between the pre and post amalgamation by the MRB.

c. Loans and advances disbursed to priority sectors

Introducing priority sector lending is the most successful and advantageous decision of the Government of India. India is an agricultural country with predominantly rural economy. Majority of industries are agro based. To make the agriculture sector more profitable and to increase the scope of rural industries, the government included the concept of priority sector and included those sectors by commercial banks (Ibrahim, Syed: 2012).

Table-7 Total Loans and Advances distribution to priority sectors as on 31.03.2000and as on 31.03.2010` *in Thousands Rs.*

No. of Yrs	Agriculture	Industries	Services
2000-01	7174	4537	35722
2001-02	9364	5419	70659
2002-03	7617	4081	53049
2003-04	12249	8128	153314
2004-05	86989	20683	191283
2005-06	135680	39856	25526
2006-07	120830	96961	107545
2007-08	186178	163862	59190
2008-09	231822	42459	327990
2009-10	236158	60144	458580
Total	**1034061**	**446130**	**1482858**

Source: Mizoram Rural Bank Annual Reports (2000-2010)

To encourage banks to participate in agricultural and rural development, the government made priority sector loans as an important target for banks. Priority sector is a sector which is given priority in offering financial services by the banks. Reserve Bank of India prescribed guidelines and targets to all the banks operating in India with regard to priority sector services.

Table 7 shows that total loans and advances disbursed by MRB to different sectors like agriculture up to `1034061 thousands, industries up to `446130 thousands and services up to `1482858 thousands within last ten years (2000-2010). The increases of loans and advances from 2008-2009 in agricultural sector and Services are `4336 thousands and `130590 thousands. From this table we can assume that total loans and advances issued by the MRB gradually increases year by year. But agricultural sector is not giving much a priority than in service sector. This following is the analysis of MRB lending under different priority sectors:

i) Agricultural lending by MRB

Credit is a basic input for any development programme. This is particularly true for agricultural development, which has its goal to improve the standards of living of realties as well as to increase agricultural productivity. Unless sufficient credit is provided to the development programme for the weaker section of the society the goal of the development programmes cannot be achieved (Sivachithappa & Thimmaiya: 2010). Since the majority of the rural people are not able to meet their day to day requirements from their sources of income especially in agricultural sector. Regional rural banks are taking care of this sector by providing loan and advances. F-test two samples for variances was performed to determine whether the pre-amalgamation period performance significantly differs from the post-amalgamation period performance of MRB on agricultural sector:

Table-8 F-test two sample for variances, Performance of MRB on agriculture sector during the pre and post amalgamation period

	pre- amalgamation	*Post amalgamation*
Mean	24678.6	193747
Variance	1217281773	2874192399
Observations	5	4
df	4	3
F	0.423521325	
P(F<=f) one-tail	0.212490548	
F Critical one-tail	0.15171325	

As can be seen fromTable-8, F-test two samples for variances clearly shows that the mean value during the pre amalgamation period is higher than the post amalgamation period. Then the F-value (0.423521325) is greater than F-critical (0.15171325) i.e., *(F > F-crit)*. The year wise performance of MRB on loan and advances distributed to priority sectors like agriculture, statistical significantly different during the pre and post amalgamation period and then H_2 is Rejected.

ii) Lending to industrial sector by MRB

Industrialization is generally considered synonymous with economic progress and hence the developing countries give high priority to industrial development. In North Eastern state majority of industrial units are located in Assam. Mizoram and other states of the region are at nascent stage of industrialization (Kabra: 2008). Since, the state of Mizoram did not have more industries; Mizoram rural bank plays an important role in financing the industrial sector for their improvement for the future. F-test two samples for variances were performed to determine whether the pre-amalgamation period performance significantly differs from the post-amalgamation period performance of MRB on Industrial sector. The F-test result is under the following table:

Table-9 F-test two sample for variances, Performance of MRB on Industrial sector during the pre and post amalgamation period

	Pre-amalgamation	*Post-amalgamation*
Mean	9577.75	90856.5
Variance	57645938.25	2884214538
Observations	4	4
df	3	3
F	0.019986703	
P(F<=f) one-tail	0.004629128	
F Critical one-tail	0.107797789	

This *F-test* two sample for variances (Table-9), highlight that F-value (0.019986703) is greater than F-critical (0.107797789) i.e., (*F*< *F-crit*). The year wise performance of MRB on loan and advances distributed to priority sectors like industries, statistical significantly different during the pre and post amalgamation period and then H_3 is Accepted.

iii) Lending to service sector

As we have already highlighted in Table-7, loan and advances disbursed by Mizoram rural bank to service sector is much higher than the other sectors like agricultural sector and industrial sector. F-test two samples for variances was performed to determine whether the pre-amalgamation period performance significantly differs from the post-amalgamation period performance of MRB on services sector. As the hypotheses 4 was framed. The test result is follows under the table:

Table-10 F-test two sample for variances, Performance of MRB on Services sector during the pre and post amalgamation period

	Pre-amalgamation	*Post-amalgamation*
Mean	117076.25	238326.25
Variance	4357955370	35248277956
Observations	4	4
df	3	3
F	0.123635979	
P(F<=f) one-tail	0.059874962	
F Critical one-tail	0.107797789	

From Table-10, we can clearly assumed that F-value (0.123635979) is greater than F-critical (0.107797789) i.e., *(F > F-crit)*. The year wise performance of MRB on Loan and Advances distributed to priority sectors like Services, statistical significantly different during the pre and post amalgamation period and then H_4 is rejected.

1.7 Conclusion and suggestions

In the present study, the performance of Mizoram Rural Bank, an attempt has been made to analyze the performance in terms of certain defined parameters like number of branches, district covered and mobilization of deposits, loans and investments made by these banks. The performance of MRB in the state shows a good picture and not makes any deference performance during the pre and post- amalgamation period. Even though number of RRBs in the state is only one i.e., MRB, the branch net work has been increased and covered all the districts in the state. Credit-deposit ratio has been increased over the years showing that a remarkable deployment of credit by this bank in rural areas.

However, it is the responsibility of the bank management and the sponsored bank to take the change for corrective steps to raise the credit-deposit ratio of the bank. The CD ratio of MRB needs to be increased. With a view to facilitate the seamless integration of MRB with the main payment system, there is a need to provide computerization support to them. MRB should extend its services in to un-banked areas and increase their credit-deposit ratio. The process of merger should not proceed beyond the level of sponsor bank in each state. The findings may be of considerable use to rural banking institutions and policy makers in the state.

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