Organisation, Functions And Management Of Regional Rural Banks In Eastern Uttar Pradesh
The Government of India accepting the recommendations made by the working group, promulgated an ordinance on September 26, 1975, for setting up Regional Rural Banks. It was subsequently replaced by Regional Rural Banks Act of 1976 dated February 9, 1976. As per this Act, the Regional Rural Banks were to be set up with a view to developing the rural economy by providing credit and other facilities particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in order to develop agriculture, trade, commerce, industry and other productive activities in the rural areas. ¹ As per the recommendations made by the Group, 5 Regional Rural Banks were set up on October 2, 1975, in selected areas to serve as pilot institutions so as to provide guidelines in respect of size of operations, initial coverage, viability, etc., for future development.

Each Regional Rural Bank is sponsored by a scheduled commercial bank, which provides assistance in several ways, viz.,

¹ Naresh Kumar, Regional Rural Banks help in rural development, The Maharashtra Cooperative Quarterly, Pune, LXVI, 2, October, 1982, p.68.
subscription to its share capital, provision of such managerial and financial assistance as may be mutually agreed upon, and help in the recruitment and training of personnel during the initial period of its functioning. In addition to this, Central Government may also provide the necessary directions for the formulation of policies in respect of these banks.¹

**Organisation**

Organisation is the framework of management. In the absence of sound organisation, no concern, be it industrial or financial, is able to operate efficiently. Regional Rural Banks, which, to a large extent, have to depend upon the sponsoring banks and also upon Central Government for designing the organisation structure of a sound character, have to provide a framework of their own. A bird eye visualisation of the facts pertaining to organisation of these banks clearly reveals the following segments of organisation:

a) **Chairman**
b) **Committees of Board**
c) **Operating Personnel**

a) **Chairman** - The Government of India appoints eligible individuals as Chairmen for a period of five years who are eligible for re-appointed after the expiry of the term. The Chairman holds office at the pleasure of the Central Government. He is

¹ The Economic Times (Supplement), New Delhi, Vol. IX, No.92, June 26, 1982, p.II.
required to devote his whole time to the affairs of the Regional Rural Banks; and is subject to the superintendence, control and direction of the Board of directors. He will look after the whole management of the Banks. The Chairman receives salary and allowances, and is governed by such terms and conditions of service, as may be determined by the Central Government. ¹

However, in practice, the Chairmen of the Regional Rural Banks have been appointed by the Government of India on the recommendation of the sponsoring banks.² The latter has been recommending a person from among its employees for this post. The Chairman, so appointed is in fact on deputation with the Regional Rural Banks, whose full salary is paid by the sponsoring bank.

b) Committees of Board - Since all matters pertaining to operations of Regional Rural Banks may not be effectively decided by one individual alone, Committee form of organisation has also been preferred. It is clearly provided in the Act that the Board of Directors may constitute such committees, whether consisting wholly of directors or wholly of other persons or partly of directors and partly of other persons, as it may deem fit, and, for such purposes as it may decide. As

¹ Regional Rural Banks, Act, 1976, Govt. of India, Ministry of Law, Justice and Company Affairs, New Delhi. p. 4.
² Naresh Kumar, Rural Banking as main plank of rural poor, Khadi Gramodyog, Bombay, XXVII, 11, August, 1982, p.494.
such, committees are expected to be formed to deal with certain specific matters. It clearly shows that organisational structure of these banks provides room for technical hands and subject experts also.

Operating Personnel -

Each Regional Rural Bank is empowered to appoint such number of officers and other employees as it may consider necessary or desirable for the efficient functioning, and may determine the terms and conditions of their appointment and service. However, the sponsoring bank may send such number of officers and employees on deputation as may be necessary and desirable. However, such an arrangement has been subject to request by the sponsored Regional Rural Bank itself.¹

Dealing with problems of personnel recruitment and remuneration, the Working Group on Rural Banks (Narasimham Group), 1975, suggested that the selection for deputation for supervisory and clerical staff should be made keeping in view the special characteristics of Regional Rural Banks' operation. In other words, personnel on deputation should be from such of

¹ Regional Rural Banks are not free to fix the remuneration of the personnel appointed by them. The remuneration of officers and other employees appointed by a Regional Rural Bank shall be such as may be determined by the Central Government, keeping into account and giving regard to the salary structure of the employees of the State Government and the local authorities of comparable level and equal status in the notified area in which Regional Rural Bank is said to operate.
the sponsoring banks which are already functioning in rural areas. Fresh recruitment of staff should be made from the area of operation of the Regional Rural Bank. Though precise information on direct recruitment is not available, several Regional Rural Banks have by now recruited a significant number of the clerical and technical staff required by them and the process is in progress in others. For officers' cadre, the Regional Rural Banks seem to be still relying on their sponsoring banks.¹

It is not only sufficient that persons from the locality of Regional Rural Banks are recruited. There is great need for their proper training. In order to help the Regional Rural Banks to have trained staff as early as possible, the Reserve Bank of India have undertaken the task of providing training to the Chairman and Branch Managers in the RBI College of Agricultural Banking (CAB), Pune.²

As decided, the training programme for Accountants, Field Officers and Clerks is conducted at training centres of the respective sponsoring banks under the overall supervision of the College of Agricultural Banking, which is also helping in the preparation of syllabi drawn up by the sponsoring banks and by deputing its Faculty Members to assist in conducting their training sessions.³

¹ Govt. of India, Report of Working Group on Rural Banks, New Delhi, 1975, p.2.
² Report of the Review Committee (Dantwala Committee) on Regional Rural Banks, RBI, Bombay, 1977, p.38.
³ Ibid., p.40.
Functions of Regional Rural Banks

It is now fully appreciated by economists and Government that Regional Rural Banks have to play a very important role in facilitating the process of economic development in Rural areas through an effective mobilisation of the resources of the rural community into their most productive uses. Thus, Regional Rural Banks have to shoulder great responsibilities in meeting the challenges of economic development.

Every Regional Rural Bank has been given the status of a Scheduled Commercial Bank and has been empowered to transact and carry the business of banking.\(^1\) As such, it is supposed to mobilise deposits and to grant short-term and medium-term loans directly (whether individually or in groups) only to persons in rural areas having small means and engaged in any productive activity, and also (indirectly) to all types of cooperative societies and the Farmers' Service Societies (FSS) operating within the jurisdiction of the RRBs.\(^2\) Rural Bank can also provide loans for productive purposes, education, medical facilities, birth anniversary, marriage occasions, and religious festivals, etc.

Important Functions of Regional Rural Banks

In view of the role, challenge, and responsibility assigned

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1 It defined in Clause(b) of Section 5 of the Banking Companies Act, 1949, and may engage in one or more forms of business specified in sub-section(1) of Section 6 of that Act.
to Regional Rural Banks, it is not possible to make an exhaustive list of the functions and services likely to be rendered by a Regional Rural Bank. However, we may highlight some of their most fundamental functions, which may be divided into two categories:

a) Acceptance of deposits, and  
b) Granting of loans and advances.

a) Accepting Deposits

The most important function of the Regional Rural Banks is to mobilise savings of the public by attracting them in the form of deposits. For this purpose, the Regional Rural Banks, like other banks, maintain various accounts, such as fixed deposit account, current account and savings bank account. The savings mobilised through all these accounts may partake the character of time deposits and/or demand deposits.

The Regional Rural Banks like any other bank attracting deposits, pay interest to induce persons to hold their savings as deposits with these banks; and always stand ready to covert their demand deposits into cash at the discretion of the depositors. Moreover, these banks have been allowed to pay interest on deposits at rates higher by 1/2 per cent over the rates payable by the scheduled commercial banks for all periods of maturity upto 3 years. These rates payable on deposits are at par with those offered by the District Central Cooperative Banks operating in the area of operation
of Regional Rural Banks, but 1/2 per cent lower than the rates on deposits payable by the village level Primary Agricultural Credit Societies. The fixed deposits of these banks are also known as their 'time deposits' or 'time liabilities'. The period of fixed deposits varies from three months to five years or more. If a depositor wants to withdraw his time deposits or time liabilities before the date of expiry, the bank allows it in exceptional circumstances after deducting a reasonable amount as discount.

The current accounts are generally meant for businessmen. These are technically known as 'demand deposits' or 'demand liabilities' and are withdrawable by the depositor at any time through cheques. Savings bank accounts carry lower rate of interest as compared with fixed deposits, and are subject to certain restrictions on the amount so receivable and withdrawable.

1 Regional Rural Banks Act, 1976, op.cit., p.7.
2 A depositor with non-cheque operated savings bank account will not be permitted more than 50 debits in a half-year and a depositor with cheque operated savings bank account will not be permitted more than 100 deposits in a half-year. In case of a withdrawal by cheque, the amount need not be multiples of one rupee. No cheques should be drawn for amounts above Rs. 2,500.00 but below Rs. 5.00. The depositor desiring to withdraw an amount larger than Rs. 2,500.00 may do so by using a withdrawal order form.
b) **Granting of Loans and Advances**

By their very nature, Regional Rural Banks have become a major partner in the Rural Credit market. These institutions also make loans and advances to small and marginal farmers, artisans, consumers and agricultural labourers, etc., against securities. It may, however, be pointed out that Regional Rural Banks do not usually lend hard cash. Instead, the customers are extended loans and advances in the form of rights to draw cheques.

As mentioned earlier, these banks are supposed to lend only to weaker sections in rural areas and that too in such a way as to ensure better resource utilisation and rapid economic development. Such loans and advances are expected to render the following services in rural areas:

i) Bridging the credit gaps.

ii) Provision of productive credit for rural community.

iii) Assisting implementation of agricultural development projects.

iv) To help create climate for repayment of loans.

v) Offer incentives for mobilising local resources.

vi) Speeding the overall economic uplift of the weaker sections.

vii) Financing the requirements of small and marginal farmers, agricultural labourers, cottage industries, petty traders and Adivasis.

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c) **Management**

The general superintendence, directions and management of affairs and business of a Regional Rural Bank have been entrusted to a Board of Directors. Moreover, a Regional Rural Bank in the discharge of its functions will also be guided by such directions in regard to matters of policy involving public interest as the Central Government may give, after due consultation with the Reserve Bank of India.¹

(i) **Board of Directors** - The Board of Directors functioning as hierarchy would include nine members headed by a Chairman. In addition to the Chairman, who is appointed by the Central Government, other members of the Board shall include:²

(a) three directors nominated by the Government of India,

(b) not more than two directors nominated by the concerned State Government, and

(c) not more than three directors nominated by the sponsoring bank.

The Central Government is very much authorised to increase the number of members of the Board upto fifteen, and is also free to prescribe the manner in which the additional positions may be filled in.

(ii) **Term of Office of Director** - A Director (other than Chairman) shall hold office for such period, not exceeding

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¹ *Regional Rural Banks Act, 1976, op.cit.*, p. 4.
² Ibid.
two years from the date he assumes office, as the authority nominating him may specify at the time when the nomination is made and may, on the expiry of the said period, continue to hold office until his successor has been nominated. However, he will also be eligible for renomination.

(iii) Disqualifications\(^1\) - The following categories of persons are disqualified for appointment or nomination as Directors:

(a) A person who is, or, at any time has been adjudged insolvent or has suspended payment of his debt or has compounded with his creditors.

OR

(b) A person who is of unsound mind and stands so declared by a competent court.

OR

(c) A person who is, or has been, convicted of an offence, which in the opinion of the Central Government, involves moral turpitude.

(iv) Vacation of the office of Directors\(^2\) -

(a) The office of a Director is taken to have become vacant if (i) he subjects himself to any of the disqualifications mentioned earlier, or (b) he absents himself without leave from more than three consecutive meetings of the Board.

(b) The Chairman may resign his office by giving notice thereof in writing to the Central Government. A Director may resign his office by giving notice thereof to the authority by which he was nominated; and, on such resignation being accepted, the Chairman or the Director, as the case may be, shall be deemed to have vacated his office.

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1 Ibid.
2 Ibid., p.5.
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(v) **Meetings of Board**

(1) The Board of Directors of a Regional Rural Bank shall meet at such time and place, and shall observe such rules of procedure in regard to the transaction of business at its meetings, as may be prescribed by the Central Government.

(2) The Chairman of Regional Rural Banks shall preside over the meetings of the Board. In his absence, such Director as the Chairman may generally, or in relation to any particular meeting, authorise in this behalf, shall preside. And, in the absence of both, the Chairman and the Director so authorised, the Directors present at the meeting shall elect one from among themselves to preside over the meeting.

(3) All questions at a meeting of the Board shall be decided by a majority of votes of the Directors present and taking part in voting; and in case of equality of votes, the person presiding shall have a casting vote.

(4) No Director shall, as a Director, take part in the discussion or vote on, any contract, loan, arrangement of proposal, entered into or to be entered into by or on behalf of the Regional Rural Bank, if he is directly or indirectly interested in the contract, loan, arrangement or proposal.²

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¹ Ibid.
² Where a Director is interested in any such matter, he shall, at the earliest possible opportunity, disclose to the Board the nature of his interest in such contract, loan, arrangement or proposal; and where he does so, his presence at the meeting shall not count for the purpose of forming any quorum at the time of any such discussion or vote. But, if he does vote, his vote shall be void.
Capital Structure of Regional Rural Banks

The Capital Structure of Regional Rural Banks and provisions relating to it may be discussed as follows:

(1) **Authorised Capital**

The authorised capital of each Regional Rural Bank shall be one crore of rupees, divided into one lakh shares of Rs. 100/- each. However, the Central Government is authorised, after the consultation with the Reserve Bank of India and the sponsoring Bank, to increase or to reduce such authorised capital. However, in no case the amount of authorised capital should be reduced below Rs. 25 lakhs.\(^1\) It is also provided that authorised capital in all cases (whether increased or decreased) shall always be in share values of Rs. 100/- each.

(2) **Issued and Subscribed Capital**

The issued capital of each Regional Rural Bank shall be of Rs. 25 lakhs. The issued capital would be subscribed by the Government of India, the sponsoring bank and the concerned State Government in the proportion of 10:7:3 respectively. The Act does not provide for the holding of shares upto 15 per cent by local institutions and individuals as suggested by the working group on Rural Banks.\(^2\)

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1. Regional Rural Banks Act, 1976, op.cit., p.3.
2. Ibid.
The Board of Directors may, after consultation with the Reserve Bank of India, the concerned State Government and sponsoring bank with the prior approval of the Central Government, increase the issued capital of the Regional Rural Banks from time to time. But, whenever additional capital is issued, such capital should also be subscribed by the above agencies in the same proportion as mentioned above.¹

(3) **Paid-up Capital**

The paid-up capital of each Regional Rural Bank was placed at Rs. 25 lakhs divided into 25,000 fully paid-up shares of Rs. 100.00 each. Thus, out of the paid-up capital referred to above, the share of the Government of India comes to Rs. 12.50 lakhs (50 per cent of the total); Rs. 8.75 lakhs (35 per cent of the total) have been contributed by the sponsoring bank. The remaining 3.75 lakhs (15 per cent of the total) have been paid-up by the concerned State Government.²

**Branch Expansion**

One of the objectives underlying the Regional Rural Bank Scheme is that credit facilities through commercial banking channels (Regional Rural Banks) should be extended to remote rural areas particularly to unbanked and under-banked centres.³

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1 Regional Rural Banks Act, 1976, op.cit., p.3.
2 Ibid.
Table 1

PROGRESS OF BRANCH EXPANSION OF REGIONAL RURAL BANKS AS ON 31st DECEMBER,

<table>
<thead>
<tr>
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<tr>
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<td>No. of Branches</td>
<td>No. of RRBs</td>
<td>No. of Branches</td>
<td>No. of RRBs</td>
<td>No. of Branches</td>
<td>No. of RRBs</td>
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<td>3</td>
<td>155</td>
<td>3</td>
<td>232</td>
<td>4</td>
</tr>
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<td>2 Assam</td>
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<tr>
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<td>122</td>
<td>7</td>
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<td>10</td>
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<tr>
<td>4 Gujarat</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>2</td>
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<tr>
<td>5 Haryana</td>
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<td>2</td>
<td>45</td>
<td>2</td>
<td>55</td>
<td>2</td>
</tr>
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<td>6 Himachal Pradesh</td>
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<td>1</td>
<td>1</td>
<td>11</td>
<td>1</td>
<td>21</td>
<td>1</td>
</tr>
<tr>
<td>7 Jammu &amp; Kashmir</td>
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<td>20</td>
<td>1</td>
<td>35</td>
<td>1</td>
<td>38</td>
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<td>8 Karnataka</td>
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<td>4</td>
<td>131</td>
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<td>9 Kerala</td>
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<td>8</td>
<td>2</td>
<td>68</td>
<td>2</td>
<td>96</td>
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<td>10 Madhya Pradesh</td>
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<td>4</td>
<td>89</td>
<td>4</td>
<td>131</td>
<td>7</td>
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<td>1</td>
<td>28</td>
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<td>12 Orissa</td>
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<td>153</td>
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<td>-</td>
<td>-</td>
<td>1</td>
<td>25</td>
<td>1</td>
</tr>
<tr>
<td>15 Tripura</td>
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<td>1</td>
<td>22</td>
<td>1</td>
<td>24</td>
<td>1</td>
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<tr>
<td>16 Uttar Pradesh</td>
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<td>10</td>
<td>218</td>
<td>10</td>
<td>304</td>
<td>10</td>
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<tr>
<td>17 West Bengal</td>
<td>3</td>
<td>41</td>
<td>4</td>
<td>71</td>
<td>4</td>
<td>87</td>
<td>4</td>
</tr>
</tbody>
</table>

All-India 40 489 48 1,187 51 1,754 60 2,420 85 3,279 105 4,794 124* 6,259**

* This total include one each RRB of Manipur and Meghalaya.
** This total include 4 branches of Manipur and 3 branches of Meghalaya.

One of the important objectives of Regional Rural Banks is to implement a programme of extending facilities which would provide full advantage of the organised banking to the rural customers. Each Regional Rural Bank was expected to open a minimum of 20 operating branches within the first year of its operation and 20 to 30 more branches in the second year of working, ultimately reaching the target of having 50 to 60 branches to cover all relatively "unbanked" or "under-banked" centres in the area of its operation.

Table 1 gives data pertaining to the urban branches of the RRBs in India and also Uttar Pradesh.

It is obvious from the Table that by December 31, 1976, 40 Regional Rural Banks had been set up in the country in 15 States with a total of 489 branches, i.e., 12 branches per bank. The number of Regional Rural Banks in the country had gone up to 48, by the end of December, 1977, covering 16 States and operating a total number of 1,754 branches, which per Regional Rural Banks comes to 25. The number of Regional Rural Banks in the country had gone up to 51 by the end of December, 1978, covering 17 States and operating a total number of 1,754 branches (34 per Regional Rural Bank). The number of Regional Rural Banks in the country had gone up to 60 at the end of December, 1979, covering 17 States and operating a total number of 2,420 branches (40 per Regional Rural Bank). By the end of December, 1980, the number of Regional Rural Banks had gone up to 85,
covering 17 States and operating a total number of 3,279 branches (38 per Regional Rural Bank). During the year 1981, the number of branches increased to 4,794 (or by 46.20 per cent) in 17 States and 29.1 per cent during 1982 in 19 States of the country.

As on December 31, 1976, 8 Regional Rural Banks with a total number of branches were operating in Uttar Pradesh. The number of RRBs increased to 27 by December 31, 1981 and to 29 by December 31, 1982, respectively. When looking to the RRBs in 1976 (8) and 1982 (29), one finds a growth rate of 262.50 per cent over the period. Similarly, the number of branches in 1976 (129) and in 1982 (1,313), revealed a percentage growth of 917.83. The number of branches which stood at 837 in 1981, touched the figures of 1,313 by the end of December, 1982, showing a spectacular growth of 56.86 per cent.

The details of progress of all Regional Rural Banks in terms of State-wise branch expansion is also revealed from Table 1. The number of Regional Rural Banks in India had increased from 40 to 124 registering an increase of nearly 311.0 per cent in the period under consideration (1982 over 1976). The number of operating branches of all Regional Rural Banks in India had increased from 489 to 6,191 registering an increase of nearly 1,166 per cent in the period of under consideration (1982 over 1976).
Table 2

REGIONAL RURAL BANKS IN EASTERN UTTAR PRADESH AS AT THE END OF DECEMBER, 1982, THEIR COMMAND DISTRICTS, SPONSORING BANKS AND BRANCHES.

<table>
<thead>
<tr>
<th>Name of Regional Rural Bank and location of Head Office</th>
<th>Name of the sponsoring Bank</th>
<th>Date of establishment</th>
<th>No. of districts covered</th>
<th>Jurisdiction in terms of districts</th>
<th>No. of Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gorakhpur Kshetriya Gramin Bank, Gorakhpur.</td>
<td>State Bank of India</td>
<td>2.10.1975</td>
<td>2</td>
<td>Gorakhpur &amp; Deoria</td>
<td>124</td>
</tr>
<tr>
<td>Samyukt Kshetriya Gramin Bank, Azamgarh.</td>
<td>Union Bank of India</td>
<td>6.10.1976</td>
<td>2</td>
<td>Azamgarh &amp; Ghazipur</td>
<td>100</td>
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<tr>
<td>Sultanpur Kshetriya Gramin Bank, Sultanpur.</td>
<td>Bank of Baroda</td>
<td>8.2.1977</td>
<td>1</td>
<td>Sultanpur</td>
<td>52</td>
</tr>
<tr>
<td>Sarswathi Gramin Bank, Bahraich</td>
<td>Allahabad Bank</td>
<td>4.3.1980</td>
<td>1</td>
<td>Bahraich</td>
<td>43</td>
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<tr>
<td>Kashi Gramin Bank, Varanasi.</td>
<td>Union Bank of India</td>
<td>28.7.1980</td>
<td>1</td>
<td>Varanasi</td>
<td>40</td>
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<tr>
<td>Basti Gramin Bank, Basti.</td>
<td>State Bank of India</td>
<td>1.8.1980</td>
<td>1</td>
<td>Basti</td>
<td>41</td>
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<tr>
<td>Pratapgarh Kshetriya Gramin Bank, Pratapgarh.</td>
<td>Bank of Baroda</td>
<td>25.8.1980</td>
<td>1</td>
<td>Pratapgarh</td>
<td>33</td>
</tr>
<tr>
<td>Faizabad Kshetriya Gramin Bank, Faizabad.</td>
<td>Bank of Baroda</td>
<td>5.9.1980</td>
<td>1</td>
<td>Faizabad</td>
<td>27</td>
</tr>
<tr>
<td>Gomti Gramin Bank, Jaunpur.</td>
<td>Union Bank of India</td>
<td>30.3.1981</td>
<td>1</td>
<td>Jaunpur</td>
<td>40</td>
</tr>
</tbody>
</table>

Total Eastern Uttar Pradesh                                14          598
UTTAR PRADESH                                               35          1,313

Source: Data made available by the Directorate of Institutional Finance, Lucknow, Uttar Pradesh.
BRANCH EXPANSION OF REGIONAL RURAL BANKS

Eastern Uttar Pradesh

Uttar Pradesh

<table>
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<tr>
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<tr>
<td>Count</td>
<td>129</td>
<td>41</td>
<td>104</td>
<td>142</td>
<td>190</td>
<td>514</td>
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</tbody>
</table>

1976: 129
1977: 41
1978: 104
1979: 142
1980: 190
1981: 514
1982: 837

Excepting one Regional Rural Bank, namely the Jammu Rural Bank, Jammu, which has been sponsored by a private sector commercial bank (namely, Jammu and Kashmir Bank Limited), all others have been sponsored by the scheduled commercial banks. The Regional Rural Banks have been sponsored by concerned lead banks of the districts of their operation.

As revealed by the data given in table 1, in Uttar Pradesh the number of Regional Rural Banks increased from 8 in 1976 to 29 in 1982, recording an increase of 262.50 per cent. The number of operating branches in the State also increased from 41 to 1,313 registering an increase of 3,102.19 per cent (1982 over 1976).

Table 2 lists the name of sponsoring banks and areas of jurisdiction of 12 Regional Rural Banks in Eastern Uttar Pradesh, of which 4 Regional Rural Banks were established before June 30, 1977. We would make particular mention of the performance of these 12 Regional Rural Banks in Eastern Uttar Pradesh of which, the first 4 Regional Rural Banks account for a major share of total business of all Regional Rural Banks in Eastern Uttar Pradesh.

Regional Rural Banks in Eastern Uttar Pradesh have been set up by the scheduled commercial banks. It means that the Regional Rural Banks in Eastern Uttar Pradesh, established upto December 31, 1982, were all sponsored by scheduled commercial banks:

1 Bank of Baroda, 4, State Bank of India, 2, Central Bank of India, 1, Union Bank of India 3, Punjab National Bank 1, Allahabad Bank, 1 = 12.
In Eastern Uttar Pradesh, 598 branches of Regional Rural Banks were functioning in 14 districts at the end of December, 1982.

10 Regional Rural Banks in Eastern Uttar Pradesh have a jurisdiction of one district each, and another/have jurisdiction over two districts each. The 12 Regional Rural Banks altogether have covered 14 districts.

**Viability of Regional Rural Banks**

An issue often raised in connection with the operation of Regional Rural Banks is with regard to their viability. Any credit institution, if it is to survive for long, cannot afford to incur losses continuously. It has to become viable sooner or later. This is an essential aspect of any long-term arrangement to institutionalise credit.

The Dantwala Committee which reviewed the working of Regional Rural Banks in 1977, came to the conclusion that "the financial results of the working of some of RRBs do show that they have a potential and capability to attain financial viability and become a profit-making institution at a level of business of about Rs. 3 crores, which could be expected to be reached in about 3 to 4 years". It further said, "A RRB will have to put its sight higher than a business of Rs. 3 crores if

1 Reserve Bank of India, Report of Review Committee (Dantwala Committee) on Regional Rural Banks, 1977, p.27.
it is to earn profits to build up efficient credit delivery and supervision system and required bad debts and other reserves."¹

As it was felt that a fresh study on the working of RRBs had become due, on the suggestion its Steering Committee the Reserve Bank of India in 1979 carried out a quick study. The Report was submitted in April, 1980.

The conclusions drawn by this study are as follows:

The Regional Rural Banks have so far been able to achieve the main objective of helping the weaker sections in the rural areas, namely, small and marginal farmers, landless agricultural labourers and rural artisans deposit the constraints of limited area of operation, an unhelpful topography (in some areas) and an unenterprising clientele.

It is revealed that the selected Regional Rural Banks had been controlling their operating expenses quite efficiently. The increase in their total expenditure was due to increase in interest paid on deposits and borrowings and not on account of increase in establishment expenses. The gap between income and expenditure of Regional Rural Banks is quite small signifying that the RRBs are nearing the break-even point. However, it may be remarked that such a situation is unlikely to be achieved in a short period. To ensure that they also start building up

¹ Ibid.
reserves, they should aim at sufficiently high growth rates for their loan business. If the banks can achieve the suggested growth rates they would become viable by 1981.

It is not possible for all the branches to become viable as some are located at places where the potential is limited, and face keen competition from commercial/cooperative banks.

Fundamentally, Regional Rural Banks may be handicapped by two major constraints:

(i) exclusion of other than small farmers from loan facilities which keep back the relatively prosperous potential depositors from depositing their savings with these banks, and

(ii) the State Government's preference for keeping their institutional deposits with the cooperatives.¹

Nevertheless, it is expected that most of the Regional Rural Banks would play a useful role in mopping up a part of the savings of the area under their jurisdiction. For this purpose, a number of incentives, viz., loan under D.R.I scheme, advances granted at concessional rate of interests, etc., have to be continued in addition to favourable interest rates. Regional Rural Banks will have to continue mobilising savings provided (a) their branches are set up in untapped rural areas; (b) initial enthusiasm and good service is offered to customers by the staff; (c) incentives by way of 1/2 per cent higher rate of

interest is continuing, and (d) use of local language in dealings is encouraged.¹

In the light of experience, overall trends and future needs, the concept of Regional Rural Banks has to be viewed with a slightly modified perception. Since the RRBs have to spread deep into the rural areas, they shall have to operate a large number of branches. Secondly, as they have to cater to the needs of poorer groups who are in large numbers and inclined to misutilise the loan amounts, such loaning has to be supervised which means larger field staff and higher cost of operations. The loan defaults could also increase over the years and hence, the RRBs will have to build up larger reserves. All these factors are not conducive to attaining viability in a short period, thus raising the question as to how we would reconcile the need to achieve the viability with the social objective of lending to the poor at low rates of interest and assist them in making proper use of the loans.²

Today, the RRBs are cheaper than commercial banks because the staff are paid at the state government salary scales which are relatively lower than the scales in public sector banks. Further, they are under-staffed in relation to the task assigned to them. One solution is to consider RRBs as the rural wing of the public sector banks so that they can reach the remote rural

¹ Bank of Baroda Weekly Review, Bank of Baroda, Baroda, 20, No. 8, February 19, 1982, p.3.
² Ibid.
areas in backward districts and fulfill the objectives of banks' nationalisation.\textsuperscript{1} Once this perception is accepted, any losses incurred by the RRB will have to be absorbed by the sponsoring bank just as it absorbs the losses of its branches.

While all efforts should be made to make the RRBs viable, a few banks covering certain backward areas may take a longer time to become viable. Under the system envisaged above, what is expected from the sponsoring banks is that they will make good the loss on RRBs out of the interests earned on their lending activities, and by minimising their expenses such as on publicity. The Government of India itself felt the need for "The setting up of new rural banks as subsidiaries of public sector banks to cater to the credit needs of the rural people,"\textsuperscript{2} as mentioned in the notification issued for the appointment of the Working Group on Rural Banks in 1975. Once the concept of RRB as a subsidiary of Sponsoring Bank is accepted, the viability issue gets placed in its right perspective.

Assessment of the Performance of Regional Rural Banks.

The performance of Regional Rural Banks can be assessed on the basis of the following criteria:

\textsuperscript{1} The Economic Times (Supplement), New Delhi IX, 92, June 26, 1982, p.I.

(i) **Suitability of Location**

The Regional Rural Banks are to be located in such areas where the credit support of commercial and cooperative banks is inadequate and credit gaps are large; where the weaker section of rural population are large in number and where potentiality for agricultural development is good.

The Steering Committee indicated the norm of 75,000 population for opening a branch of Regional Rural Bank.

(ii) **Spread of Banking Facilities**

The RRBs were established to help expand credit facilities to the remote rural areas, particularly to those which have been hitherto unbanked or underbanked. Needless to say that merely expansion of branches alone would not furnish a satisfactory position as regards the performance of Regional Rural Banks, which would acquaint themselves well if these besides opening branches in 'unbanked' and 'underbanked' areas also take to liberal financing of the credit-starving rural projects and entrepreneurs. The time-bound targets both with regard to branch expansion and credit, must be achieved.

(iii) **Deposit Mobilisation**

The process of capital formation is accelerated by banking activities of RRBs. These banks can create credit on the basis of primary deposits and can, therefore, extend credit
facilities in a large magnitude than that of primary deposits. These banks by restoring to varied banking facilities, viz., provision of cheques, cheap remittance and collection facilities, etc., and by providing banking education and incentives, may motivate and inspire people to surrender their savings.¹

The two major constraints on deposit mobilisation in respect of RRBs are (a) exclusion of other than small farmers from loan facilities which kept back the relatively better-off potential depositors from depositing their savings with the RRBs, and (b) the State government's preference keeping their institutional deposits with the cooperatives. These constraints have been removed to some extent in the country by Finance and Planning Department, by bringing RRBs at par with cooperative banks in respect of deposit mobilisation. Panchayats, municipalities and other local bodies would now be in a position to deposit their funds with RRBs.

(iv) Loan Business

One of the objectives of RRBs is to attempt effective coverage of the small and marginal farmers, landless labourers, rural artisans, etc. The performance of the Banks will have to be judged by their success in coverage of such categories of borrowers.

¹ Naresh Kumar, Role of RRBs in Rural Finance: A case study of Eastern Uttar Pradesh, Cooperative Perspective, Pune, 18, 2, July-September, 1982, p.37.
(v) **Advance Deposit Ratio and Funds Position**

Increasing the level of local employment of deposits mobilised locally is a marked feature of the RRBs. Therefore, an analysis of advance-deposit ratio attained by RRBs would be an important indicator of their contribution to the development of the concerned region.

The comparison of advance-deposit ratio of RRBs with those of rural branches of commercial banks in the same region would help us to gauge the performance of RRBs in the local development of deposits raised locally. Such ratios have been calculated and given by us in Chapter V.

It is worthwhile to study the advance-deposit ratios and funds position of RRBs together for assessing the working of RRBs. According to the formula of the Reserve Bank of India, the proportion of RRB deposits, Reserve Bank of India finance and the sponsoring Bank advances is fixed at 15:50:35. Analysis of the funds position of RRBs would indicate if there is a potential for getting additional funds from the RBI/Sponsoring Bank and also show the real position on resources side in expanding the loan business of RRBs.

(vi) **Recovery Performance**

The recovery performance of RRBs can be measured by looking to the proportion of overdues to the demand as existing on a
particular date against the debit accounts. The position may be viewed by looking to comparable data of commercial banks, cooperative societies and RRBs operating in the same area. This would help reveal the effective functioning of RRBs in this regard. Verily recovery operations help sustain financial organisations.

As suggested by some banking experts, to improve the recovery position, 'recovery drives' by a joint team of government and bank officials may be carried out periodically at regular intervals.

(vii) **Quality of Lending**

Though the area of operation of the branches of RRBs and commercial banks is more or less equal the RRB branches posted with field-staff would be in a better position to examine the business in their command area compared with commercial bank branches which do not have field staff. It is, therefore, expected of RRBs to serve the rural poor better. It is also the duty of RRB field staff to contact prospective borrowers in the village.

Though, the loan applications are more simple than those of commercial banks and are in vernacular, yet the RRB staff should help the borrowers in filling up of the forms and also in securing 'no dues' certificates and extracts from the land
records, etc. The extent to which the RRB field staff will undertake these functions with enthusiasm and initiative, would determine the performance of the Regional Rural Banks.

The adequacy of loan amount, judged by the proportion of the loan amount sanctioned to that applied for, the period required to complete the formalities for sanctioning the loan, and the rate of interest chargeable on loans, would give an idea as to how far the RRBs justify their existence in catering to the needs of the weaker sections.

(viii) Management

That the success of RRBs depends on the quality of their management, needs no emphasis. The management should take right decisions at the right time. The directors on the board of management should take an active part in the proceedings of board meetings. The extent to which the weaker sections are represented on the board of directors may be taken as a measure of safeguarding their interests.¹

But effective management with good leadership alone is not sufficient. The right attitude of the RRB depends, to a considerable extent, upon ensuring rural orientation among the staff recruited and local touch in their appointment.

(ix) **Financial Viability**

On the question of financial viability and the time dimension within which it was to be achieved, the working Group on Rural Banks had remarked that "where the objective of the type of financial institutions (viz., RRBs) is socio-economic, an initial period of financial loss may well be a price worth paying for the achievement of the larger social objective of widening the area of credit coverage."

The Dantwala Committee was of the opinion that the RRBs can attain financial viability and may be able to reduce progressively their dependence on Reserve Bank of India/Sponsoring Banks thereafter, provided of course, the RRBs make innovative efforts to steadily increase their lending business.

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1 The Economic Times (Supplement), New Delhi, Vol. IX, No.92, June 26, 1982, op. cit.