CHAPTER III

Conceptual Issues on Regional Rural Banks (RRBs)

- Definition
- Objectives of setting up RRBs
- Prominent Postulates of RRBs
- Business of RRBs
- Capital Structure of the RRBs
- Management and Staff Pattern of the RRBs
- Organizational Structure
- RRBs Vs. Commercial Banks
- RRBs Vs. Co-operative Banks
The RRBs combines the local feel and familiarity with the rural problems at par with the cooperatives, in one hand, and with strategic business environment, commercial discipline, ability to mobilise deposit, access to control money market and the modern outlook of the commercial banks; on the other. Generally these institutions are regional based, rural oriented and commercially organised. The role of RRBs is to supplement the other regional institutional agencies in this arena and not to supplant them. These institutions are aimed to assist in fulfilling of the lead bank’s role. Actually, the operations of the lead banks and the RRBs are complementary to each other. The establishment of these entities, as such, has created new vistas in the agricultural credit structure which is instrumental in the development of rural economy in India. The chapter endeavours to discuss the various conceptual issues on RRBs.

Definition:

A regional rural bank means a bank established under section 3 of the Regional Rural Banks Act, 1976 [The Regional Rural Bank Act 1976 (no.21 of 1976) Chapter 7]”. These organisation are rural financial institutions and referred to as distinguished segment of the multi agency credit structure in India, set up for the purpose of providing credit and other incidental services at reasonable terms and conditions to uplift the rural poor of the un-banked and under-banked areas.

Objectives of setting up RRBs:

The main objective behind setting up of RRBs was to attain rural development through betterment of weaker section of the rural society. The novelty of rural credit aims at providing finance and other facilities in development of agriculture and allied activities to
renovate the rural economy. These institutions serve as supplement to the existing institutional
credit infrastructure and also to reduce participation of informal credit agencies, especially the
unscrupulous money lenders. According to RRBs Act 1976, the RRBs are established, with a view
to developing the rural economy and providing assistance in the advancement of agriculture, trade,
commerce, industry and other productive activities in the rural areas, credit and other facilities,
particularly to the small and marginal farmers, agricultural labourers, artisans and small
entrepreneurs, and for matters connected therewith and incidental thereto.

A large segment of rural economy remained un-banked and under-banked despite a
remarkable expansion of the rural branches of the commercial banks, particularly after the
nationalization of bank in 1969. In order to achieve the aforesaid objective, the following
operational objectives were identified and conceived at the time of establishment of the RRBs:

(i) to reach to the remote backward and tribal areas of the villages and also to make
these areas economically stable and sound,

(ii) to initiate employment opportunities to local youth. This initiative, as was
perceived, would not only change the social, economic, cultural and political
environment but also the life style and standard of living of rural poor,

(iii) to eradicate the existence of usurious money-lenders in the rural credit market,

(iv) to bridge the credit slit in the rural areas,

(v) to liberate the rural people from the curse of poverty,

(vi) to mitigate poverty through generation of surplus income and better planned
productive activities,

(vii) to make an impression as a specialised agency for extension of credit facilities to
small farmers and other small borrowers in the rural areas,
(viii) to provide the most needed credit at the doorstep of the rural poor on reasonable terms and conditions so that the weaker sections of people in rural areas could raise their total productivity and their standard of living,
(ix) to mobilise rural savings of the poor villagers even in small amounts and to inculcate in them the habit of frugality in replacing the money lenders,
(x) to establish a centre for overall economic development and social change by integrating and coordinating credit activities in the rural areas,

Prominent Postulates of the RRBs

At the time of constitution, the following postulates were promulgated for the RRBs:

(i) The regional character is an adopted feature where the areas of operation of these banks are to be restricted to ‘region’ comprising of one or more districts in a state.
(ii) In order to ensure local feel of the cooperatives, the employees are usually be recruited from the areas of operation of the respective banks.
(iii) These institutions are to be conceived as a low cost alternative credit agency in the rural areas with smaller branch offices without the complicated paraphernalia.
(iv) RRBs are to be regarded as small replica of scheduled commercial banks and would combine the advantages of the local feel of the cooperatives and financial strength, organisational and managerial skills of the commercial banks.
(v) RRBs are ‘small men’s banks’ and would cater exclusively to the credit requirement of small and marginal farmers, agricultural labourers, rural; artisans, petty traders, transport operators like camel/ bullock/ buffalo/ carts etc., referred to
as the target group.

(vi) RRBs are beneficiaries oriented rural development banks for poverty alleviation programme linked with credit.

**Business of RRBs**

As RRBs enjoy the status of scheduled commercial banks, so they are empowered to undertake all types of banking business i.e., the business of banking as is defined in section 5(b) of the Banking Regulation Act 1949 and engage in one or more forms of business specified in section 6(1) of this Act. In pursuance of section 18(2) of the RRB Act 1976, a regional rural bank can undertake the following business in addition to normal banking business

♦ Granting loans and advances, particularly to small and marginal farmers and agricultural labourers, whether individually or in groups and to cooperative societies, including agriculture marketing societies, agriculture processing societies, cooperative farming societies, primary agriculture credit societies or farmers’ service societies for agricultural operations or for other purposes connected therewith.

♦ Granting loans and advances, particularly to artisans, small entrepreneurs and persons of small means engaged in trade, commerce or industry or other productive activities, within the notified area in relation to the regional rural bank.

**Capital Structure of the RRBs**

The authorised capital of each RRB is an amount of Re. one crore comprising one lakh Rs.100 each fully paid up. However, the Central Government may increase or decrease the authorised capital in consultation with the RBI and the sponsoring bank subject to the minimum of...
Rs.25 lakhs and the face value of shares, in no case, should not exceed Rs.100 as fully paid up. The issued, subscribed and paid up capital for each RRB is Rs.25 lakhs, divided into 25,000 fully paid up shares of Rs.100 each. The Central Government, state government and the sponsored bank subscribed in the issued capital of each RRB in the ratio of 50:15:35.

The Board of Directors of RRBs may after consultation with the RBI, the concerned state government and the sponsor bank and with the prior approval with the Government of India, from, time to time increase the issued capital of the RRBs but the proportion of subscription in the additional capital by the Central Government, state government and the sponsor bank will remain same (i.e., 50:15:35).

Management and Staff Pattern of the RRBs

The RRB Act 1976 had made provision regarding the management of RRBs. According to this act, ‘the general superintendence, direction and management of the affairs and business of a RRB should rest upon the Board of Directors consisting of the nominees of the Central Government, concerned state governments and sponsor banks’. The supervision and monitoring of RRBs is done by the NABARD, the regulatory functions are looked after by the RBI under the NABARD Act; and inspection of the RRBs is conducted by the NABARD instead of RBI. Regular inspections are also undertaken by the sponsoring bank separately. With prior consultation with the GOI, organisational strategy and policies of advancing loan etc., are framed by the steering committee appointed for the purpose. At the state level, State Level Coordination Committee (SLCCs) may be formed to have uniformity in the approach of RRB culture all over India. Decisions about the staff matters are monitored by the GOI on the recommendations of the SLCCs. Each RRB depends upon the respective sponsoring bank in respect of initial staff support,
training facilities of the staff and refinance up to a prescribed limit. In the matter of growth of the RRBs, the role and responsibility of sponsoring bank have not been spelt out, but in general, they are expected to provide all-purpose counselling and support to their RRBs and supervise their activities so that they may be in a position to achieve the goals as expected from them.

The sponsoring bank supports the RRBs by subscribing to their share capital, helping in recruitment of personnel, imparting training to the staff and providing all other managerial and financial assistance as may have been mutually agreed upon by the sponsoring bank and the RRBs. It is the responsibility of each respective sponsoring bank of the RRBs to nurture them so that they may grow up in a healthy manner. From the point of view of the sponsoring bank, it is necessary because –

(i) the sponsoring bank subscribes 35 percent of the paid up capital, i.e. Rs.8.75 lakhs of each RRB which is a non-interest bearing amount,

(ii) it pays interest @ 9 percent per annum on the current account balance of the RRBs.

(iii) the sponsoring bank bears the expenditure on salary and allowances of all the staff members deputed to the RRBs,

(iv) it provides refinance facilities to the RRBs to the extent of 30 to 35 percent of the outstanding advances at a lower rate of interest (8 ½ percent for general credit and 2 percent in the case of DIR loan),

(v) the training cost of all the members of the RRB staff (including those recruited by the RRB) is borne by the concerned sponsoring bank,

(vi) free remittance and collection facilities are provided to RRBs,

(vii) RRBs are usually sponsored by the concerned lead bank of a district to open
up branches in rural interior un-banked and under-banked areas in order to reduce cost of opening branches of their own in those areas,

(viii) in case a RRB incurs losses in excess of its paid up capital, the sponsoring bank may have to bear a part of its losses.

The Board of Directors

The Board of Directors of each RRB consists of nine members including the Chairman. The Chairman is usually an officer of the sponsoring bank, but is appointed by the Government of India. The Board constituted in the following manner:

(i) The Chairman, as nominated by the Central Government

(ii) Three directors nominated by the Central Government,

(iii) Two director nominated by the concerned state government, and

(iv) Three directors nominated by the sponsored bank.

The directors nominated by the Central Government generally belong to various ministries e.g., Revenue, Finance, Agriculture or among the Regional Commissioners, District Magistrates, District Collectors as well the directors nominated by the state government are most of the I.A.S. cadre. In some cases, however, non-officials are also nominated on behalf of the Government or the sponsoring bank.

The Government of India may increase the number of members of the Board up to fifteen and also prescribe the manner in which the additional numbers are to be filled in. The directors hold office for a period not exceeding two years from the date of assumption of their office or as the authority in the nominating body. They also enjoy the facility of re-nomination. The overall management of the RRBs is rests upon the Board of Directors. The Chairman of the RRB presides over every meeting of the Board and in absence of the Chairman, the Director, so
authorised and elected among the directors present at the meeting, presides over the meeting. The Board is required to proceed on ‘business principles and should have due regard to public interest’.

The Chairman

The Government of India appoints an individual as Chairman for every RRB of a period not exceeding five years under section 11(1) of the RRB Act, 1976. The Chairman of an RRB is the chief executive officer (CEO) of the bank and holds the full-time responsibility for the affairs relating to supervision, direction and control. The Chairman is also eligible for reappointment after the expiry of the period of five years. The Chairman presides over the meetings of the Board. He plays a crucial role in the workings of RRBs, particularly in respect to liaison, planning and coordination of all functions. He has to deal with the state government, the Central Government and the senior officers of the RBI, NABARD and the sponsoring banks. Moreover, he holds the responsibility to manage the operation of all the branches located in the far-flung villages. He enjoys a substantial power for smooth running of the bank and is responsible to put periodically all important details about the development of the bank before the Board.

General Manager

RRBs, which have a network of 50 branches and have reached a loaning business in terms of outstanding of over Rs.3 crore, may appoint an individual as general manager on the basis of recommendations of the steering committee as decided by the Government of India. A General Manager is second in command and the senior most officer in the ladder of a RRB. He is responsible for the smooth running of the management and has to maintain effective control over the banking business, including loans and advances. He is also responsible to manage the affairs of bank in absence of chairman. The General Manager has an overall accountability for all the
aspects of the bank’s activities.

*Area Manager*

To assist the general manager, an individual is selected as area manager for improving effectiveness in the administrative and operational control of RRBs. An area manager is responsible for the development of respective areas under his command.

*Other Employees*

The other employees of RRBs are–

- Field Supervisors / Assistants,
- Technical Officers / Rural Development Officers,
- Clerks,
- Driver-cum-Messengers, and
- Peons

*Organisational Structure*

Organisational structure of the management of the RRBs at Head Office level is given below:
Chart – 3.1

Head Office Organisational Structure of the RRBs (Branches >50)

Chairman

<table>
<thead>
<tr>
<th>General Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager Manager Manager Manager Manager</td>
</tr>
<tr>
<td>(Planning &amp; Development) (Inspection &amp; Vigilance)</td>
</tr>
<tr>
<td>Officers Officers Officers Officers Technical Officers</td>
</tr>
<tr>
<td>Clerk Clerk Clerk Clerk Clerk</td>
</tr>
<tr>
<td>Peon Peon Peon Peon Peon</td>
</tr>
</tbody>
</table>


Chart – 3.2

Head Office Organisational Structure of the RRBs (Branches 25 to 50)

Chairman

<table>
<thead>
<tr>
<th>Manager</th>
<th>Manager</th>
<th>Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Advances, Credit Management, Refinance, Recovery, Rehabilitation, legal Follow up, etc.)</td>
<td>(Personnel, Training and Recruitment, Secretariat for Board)</td>
<td>(Accounts, Inter-office Funds, stationary, Dead stock, Records, statistics and Returns, Inspection and Audit)</td>
</tr>
<tr>
<td>Officer Technical Officer Officer Officer Officer Officer</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Managers : 3
Officers : 7 + 1 (Technical Officer)
Clerk-cum Cashiers : 7 (2 senior clerks + 5 junior clerks)
Typist-cum-Clerks : 4

Note: (i) No General Manager envisaged for RRBs with branches up to 50.
(ii) An officer to be posted as manager at head office or as area manager should possessed 5 years’ confirmed service as officer

Source: Regional Rural Banks in Rajasthan – M. S. Bapna, p- 58.
Organisational structure of the RRBs at the branch level is given below:

**Chart – 3.3**

**Organisational Structure of the RRBs (Branch Level)**

Manager

<table>
<thead>
<tr>
<th>Field Assistant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Clerk</td>
</tr>
<tr>
<td>Junior Clerk</td>
</tr>
<tr>
<td>Peon (temporary)</td>
</tr>
</tbody>
</table>


**RRBs vs. Commercial Banks**

RRBs are different from commercial banks in the following points:

<table>
<thead>
<tr>
<th>Points of Distinction</th>
<th>RRBs</th>
<th>Commercial Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Status</strong></td>
<td>All the RRBs are scheduled commercial banks. The scheduled status is given to them automatically.</td>
<td>For commercial banks, in order to get scheduled status, should satisfy certain norms viz.,(a) paid-up capital should not be less than Rs.5 lakhs. and (b) affairs of the bank should be conducted in compliance to RBI / NABARD.</td>
</tr>
<tr>
<td><strong>Act Applicable</strong></td>
<td>The RRB Act 1976 governs all the RRBs.</td>
<td>Commercial banks are governed by the Banking Regulation Act, 1949.</td>
</tr>
<tr>
<td><strong>Areas of Operation</strong></td>
<td>The areas of operation of RRBs are restricted to a region comprising of one or more districts in a state.</td>
<td>There is no such ‘area restriction’ in case of commercial banks. Commercial banks can go beyond a particular district(s) for want of expansion of business.</td>
</tr>
<tr>
<td>Branch Expansion</td>
<td>The RRBs open their branches at such places where the commercial banking is inadequate and coverage of the cooperatives is poor but have huge potential for development with the flow of credit. RRBs are required to take permission from the RBI to open branches in excess of 100. RRBs are generally found in unbanked and under-banked areas.</td>
<td>Branches of the commercial banks are established as per the guidelines of the RBI and usually opened in urban areas. There are no such restrictions for the commercial banks in expansion of branches. Although thrust is given for expansion of banking business in un-banked areas but usually branches are opened mostly in urban or semi-urban areas. If the commercial banks desire to open branches in rural areas, they have to seek “no objection” consent from the RRB operating in that area.</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Beneficiaries</td>
<td>RRBs have predetermined beneficiaries which include small farmers, marginal farmers, agriculture labourers, rural artisans, small entrepreneurs and other rural people.</td>
<td>There are no such predetermined beneficiaries of the commercial banks and loans and advances are released for all categories of beneficiaries.</td>
</tr>
<tr>
<td>Loans and advances</td>
<td>RRBs are formed mainly to provide loans and advances for the purpose of agriculture and allied activities, small industrial activities, small business and to the self employed people for productive as well as consumption needs.</td>
<td>Commercial banks are more interested in purveying credit to big industrial houses or large-base agricultural operations.</td>
</tr>
<tr>
<td>Rate of Interest on Advances</td>
<td>The lending rates of the RRBs are determined by the Cooperative Societies Act.</td>
<td>Lending rate of the commercial banks is comparatively higher than the cooperatives.</td>
</tr>
<tr>
<td>Rate of Interest on Deposits</td>
<td>The RRBs pay ½ % more than the rate of interest on deposits paid by the commercial banks.</td>
<td>Commercial banks’ rate of interest on deposit is low as compared with the RRBs.</td>
</tr>
<tr>
<td><strong>Cash Reserve Ratio (CRR)</strong></td>
<td>Each RRB is required to maintain 3 % of total demand and time liabilities as cash reserve ratio.</td>
<td>Commercial banks maintain 8 % of increase in deposits as CRR.</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Statutory Liquidity Ratio (SLR)</strong></td>
<td>RRBs are required to maintain 25 % as SLR.</td>
<td>Commercial banks have to maintain 37 % as SLR.</td>
</tr>
<tr>
<td><strong>Staff Pattern</strong></td>
<td>RRBs recruit neighbouring people for ensuring the local feel and acquaintance towards rural clientele.</td>
<td>Commercial banks are recruited their staff on an all India basis and their people lack rural orientation.</td>
</tr>
<tr>
<td><strong>Cost of operation</strong></td>
<td>RRBs are expected to work at a low cost as compared with the commercial banks.</td>
<td>Operation cost is much higher in case of commercial banks as compared with the RRBs due to comparatively higher establishment and operation cost.</td>
</tr>
<tr>
<td><strong>Income Tax Payment</strong></td>
<td>A RRB shall be deemed to be a cooperative society for the purpose of Income Tax Act, 1961 (43 of 1961) or any other enactment for the time being in force relating to any tax on income, profits or gains.</td>
<td>Commercial banks have to pay corporate tax on interest earnings and other earnings as well.</td>
</tr>
<tr>
<td><strong>Refinance facilities</strong></td>
<td>RRBs enjoy the refinance facilities from the National Bank for Agriculture and Rural Development (NABARD), sponsoring bank and Industrial Development Bank of India (IDBI) on easy terms.</td>
<td>The commercial banks are not enjoying any refinancing facilities on the short term loan.</td>
</tr>
<tr>
<td><strong>Inspection</strong></td>
<td>NABARD has been authorised to have statutory inspection of the RRBs under the Banking Regulation Act.</td>
<td>RBI performs the statutory inspection in case of commercial banks</td>
</tr>
</tbody>
</table>
RRBs vs. Cooperative Banks

By nature, RRBs are similar to cooperative banks, but they are different on the following points:

<table>
<thead>
<tr>
<th>Points of Distinction</th>
<th>RRBs</th>
<th>Cooperative Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objective</strong></td>
<td>The major objective of the establishment of RRBs is to supplement the resources of the cooperative banks and not to compete with them. Its aim is to provide credit and other facilities especially to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in the rural areas.</td>
<td>The principle of cooperation is “all for each and each for all”. The major objective of cooperative is to provide an institutional framework to organise ‘self-help’ among persons of small means. The weak rural folk pool resources and acquire strength. Its basis is self help through mutual help. The cooperative combines economic, social and political objectives. It aims at bringing about socio-economic changes in the country.</td>
</tr>
<tr>
<td><strong>Act Applicable</strong></td>
<td>The RRBs are governed by the RRB Act 1976, RBI Act 1949 and NABARD Act 1982.</td>
<td>Cooperative banks are governed by the Cooperative Societies Act, 1965.</td>
</tr>
<tr>
<td><strong>Status</strong></td>
<td>RRBs enjoy the status of a scheduled commercial bank.</td>
<td>Cooperative banks can not enjoy the same.</td>
</tr>
<tr>
<td><strong>Area of Operation</strong></td>
<td>Area of operation of a RRB can be extended up to one or more districts of a state.</td>
<td>Area of operation of the cooperative banks is restricted to only one district.</td>
</tr>
<tr>
<td><strong>Beneficiaries</strong></td>
<td>The beneficiaries of the RRBs include small and marginal farmers, small entrepreneurs, agricultural labourers and rural artisans and people belonging to the</td>
<td>Cooperative banks are voluntary organisation for masses.</td>
</tr>
<tr>
<td><strong>Share Capital</strong></td>
<td>The Government of India, the sponsored bank and state government contribute to the subscribed and issued capital of RRBs in the ratio of 50:35:15.</td>
<td>In case of cooperative bank, only the members contribute to the capital.</td>
</tr>
<tr>
<td><strong>Organisational structure</strong></td>
<td>RRBs are autonomous institutions where the management is centralised at the head office and administered by the Board of Directors. RRBs are generally bureaucratic institutions</td>
<td>Organisational structure of the cooperative banks is in pyramid shape. At the apex level, State Cooperative Banks function as an apex body of the structure; at the district level District Central Cooperative Bank and at the village level, Primary Agricultural Credit Societies function. It has federal set up and each unit is partially autonomous, managed by depositors and borrowers on the basis of one man one vote principle. Cooperatives are democratic institutions.</td>
</tr>
<tr>
<td><strong>Resources</strong></td>
<td>RRBs have own funds which include share capital and reserve funds as well as procured funds e.g. deposits and borrowings/refinance.</td>
<td>Cooperative banks depend upon RBI and deposits from members.</td>
</tr>
<tr>
<td><strong>Monitoring and Control</strong></td>
<td>RRBs are controlled by the Central Government, Reserve bank of India, state government and sponsor bank.</td>
<td>Cooperative banks are controlled by the RBI and Registrar of Cooperatives.</td>
</tr>
<tr>
<td><strong>Chairman</strong></td>
<td>The Chairman of a RRB is recruited by the sponsored bank.</td>
<td>In case of a cooperative bank, the chairman is selected by the state government.</td>
</tr>
</tbody>
</table>