CHAPTER- II

Evolution of Rural Banking System in India
(With Special Reference to RRBs) – A Paradigm Shift

2.1. Introduction:

The banking sector is the life line of any modern economy. The banking system is a sub-system of the entire financial system and therefore, without a sound and effective banking system economic development of a country can not be imagined. It also forms an integral part of the credit delivery system in a country which plays a vital role in the success or failure of an economy. Banks play an important role in the mobilization of deposits and supply of credit to various sectors of the economy. Thus, the banks act as the fuel injection system which spurs economic efficiency by mobilizing savings and allocating them to high yielding investment.

A bank is a financial intermediary which accepts deposits from the general public and provides loans and advances to the borrowers. It abridges the gap between those who have surplus money to save and those who have deficit to invest through channelising small savings from the community as a whole to the corporate sector. Banks also had a significant role in the development of society at large by way of shifting assets from individuals to the public domain. In short, ‘a bank is an institution that deals in money and its substitutes and provides other financial services. It accepts deposits and makes loans and derives a profit from the difference in the interest rates paid and charged, respectively’.65

Section 5 (1) (b) of the Banking Regulation Act (1949) defines ‘Banking’ as the ‘accepting of deposits from the public for the purpose of lending or investment, repayable on demand or other wise and withdrawable by cheque, draft, order or otherwise’.

Section 5(1) (c) defines “banking company” as any company which transacts the business of banking in India.

The essential characteristics of the banking business as defined in Section 5(b) of the Act are:

65 Encyclopedia Britannica, Deluxe Edition 2002
i) Acceptance of deposits from the public for the purpose of lending or investment,

ii) Deposits are repayable on demand or otherwise,

iii) Deposits are withdrawable by means of cheque or any other prescribed instruments.

In rural economy, financial intermediation is one of the critical aspects that influence the production and life-cycle of rural households. Some of the key functions of financial intermediation in rural sector are balancing the surplus and deficit of income among heterogeneous rural households and helping them to overcome risks and adversities associated with agriculture. Further, in a country with 72.7% of rural population of whom 30.2% are poor,66 credit is the last hope left to them to traverse the poverty line by utilizing their skills and available resources.

Provision of credit in timely manner on easy terms and conditions is one of the important vehicles to achieve the goal of eradication of mass poverty and growth with equity. However, helping the rural people to save in a convenient, safe and remunerative way, and providing them to meet contingencies in life are as important as providing timely and adequate access to credit at reasonable cost. A sound system of institutions and instruments of intermediation therefore becomes essential not only for promoting an efficient production system but also for addressing the issues connected to livelihood security and development of the rural sector at large.

The major aim of this chapter is to exhibit the evolutionary process of rural financial institutions with special emphasis on RRBs and to identify the areas of paradigm shifts in objectives and operational approaches of the RRBs in the post reform regime in comparison to that of the earlier period.

The hypothesis set for the chapter is: $H_0^1$: ‘The operational policies and objectives of the RRBs of the country have not changed with the changing socioeconomic scenario, over time’. [This operational hypothesis is taken as per our model hypothesis no.7] This hypothesis has been tested on the basis of facts and evidences observed in the operational policy of the RRBs over the periods. For the purpose, various reports and recommendations made by different

66 UNDP estimate, 2000
committees established by the Government / RBI / NABARD at different times along with the measures taken by the government thereon have been analyzed.

2.2. Institutionalization of Rural credit in Pre-independence era:

The records of banking tradition in India date back more than 3000 years. We find evidence of money lending operations in India in the Vedic literature, i.e. 2000 to 1400 B.C. The Buddhist literature “Jatakas”, also provide existence of ‘Sresthis’ or bankers during that period. Money-lending and allied problems had assumed considerable importance in ancient India as evidenced in “Manu Smriti”

Till the nineteenth century, credit delivery system in India, both in the rural and urban areas, was mainly dependent on the private moneylenders and indigenous bankers. Timely availability of credit from money lenders with minimum hassles helped credit seekers to a great extent and at the same time, allowed the moneylenders to flourish. The administrators, even in pre-Independence India, recognized the need for an institutionalized credit delivery mechanism in the country considering the exploitation of rural people by the money lenders in the form of usurious rates of interest charged by them.

The process of institutionalization of the Indian rural finance system, which had for centuries been dominated by traditional moneylenders, began in 1871 with disbursement of Taccavi Loan by the Government at times of natural calamities (under Taccavi Loan Acts, 1871-79). It continued with the enactment of the Land Improvement Loans Act in 1871 (revised in 1893). These Acts empowered Local Governments to provide long-term loans for investment in land from State funds and to frame rules facilitating issue of such loans. Subsequently the then Government enacted the following:

a) The Agriculturist Loans Act, 1884; which enabled the government to sanction short-term loans for purchase of seeds, cattle and other items not specified in the Land Improvement Loans Acts, and

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67 a) Reddy, Y V Future of Rural Banking, RBI Bulletin, 2000 and

b) Leeladhar, V “Rural Credit – Design & Delivery issues Corporate Social Responsibility Combining Profitability with Development” at Director’s Power Breakfast series, International Conference on Governance, Organised by Asian Centre for Corporate Governance on September 21, 2005 at Myfair Rooms Worli, Mumbai – URL - http://www.asiancentre.org/dpbs


iii) Sen P K & H S Shyendra Governance issues in Rural Finance, URL http://irma.ac.in/silver/theme不合格/SENIHSS.pdf
b) **The Deccan Agricultural Relief Act, 1879** enacted with a view to regulating the business of moneylenders.

Beginning from early eighties of the 19th century till 1898, a number of attempts were made toward establishment of agricultural banks in different parts of the country, none of which, however, succeeded. By the beginning of the 20th Century, officials of the Colonial Government perceived that a major cause of rural indebtedness and poverty was the dependence of rural people on usurious moneylenders for loans. Being convinced by the remarkable success of cooperative movement in Europe, the Indian officials began to take active interest in promoting credit cooperatives in the country as the best means of liberating Indian farmers from the crushing burden of debt and the tyranny of moneylenders. The cooperative societies were organised for the first time in the closing years of the 19th Century. In 1904, the first Co-operative Societies Act was introduced in 1904. This Act (1904) was a landmark in the history of rural finance in India and the beginning of a government policy towards rural credit. The village agricultural co-operative credit societies were set up as per the provision of this Act.

The Co-operative Societies Act II of 1912 was enacted with a view to remove the deficiencies identified in the first Act (1904) and a three-tier institutional structure was established for delivery of short and medium term credit in the rural sector.

The interest of the then government in developing cooperatives is evidenced by the appointment of **The Royal Commission on Agriculture in India (1926)** to assess the importance and scope of developing cooperatives in the country. The Royal Commission in its report (submitted in 1928), inter-alia, suggested, that

- the cooperative movement should continue to focus on expanding rural credit and,
- the State should patronise cooperatives and protect the sector.

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70 Report of the Task Force on Revival of Cooperative Credit Institutions, Chairman Prof A Vaidyanathan, Ministry of Finance, Govt of India, 30 December 2004
71 The three tiers consisted of Primary Agricultural Credit Societies (PACS) at the village level, Central Co-operative Banks (CCBs) at the district level and Cooperative Apex Banks at the provincial level
The Commission observed that “If cooperation fails, there will be a failure of the best hope of rural India”\(^2\). As per the suggestions of this report, the State was deeply involved in promoting agricultural credit cooperatives and as a result the number of societies increased in impressive proportions and diversified their activities well beyond agricultural credit.\(^3\)

While establishment of co-operative credit institutions was in itself a milestone in the process of institutionalization of rural credit in India, a number of subsequent studies\(^4\) pointed out negligible contribution of these institutions in meeting the credit requirements of the farmers at large. The studies revealed that almost the entire finance required by farmers was supplied by moneylenders.

The Statutory Report of RBI on rural credit (1937) stated that although cooperatives have failed to meet the expectations of the farmers. However, it recognized cooperatives to be the most suitable agency for supply of agricultural credit, provided the system was restructured suitably. On the recommendation of the Statutory Report, consequently, a two-tier structure of cooperative credit societies was set up, for meeting the long-term credit requirements of the farmers.

Thus, during pre-independence era, India had village cooperative credit societies as the only institutional credit providing agency along with a large number of village money lenders.

**2.2.1. Commercial Banks and Rural Credit in India during Pre-Independence era:**

The commercial banking in India commenced with the establishment of the first joint stock bank, ‘The General Bank of India’ in the year 1786.\(^5\) Afterwards, the Bank of Hindustan and The Bengal Bank came into existence in the same year. The East India Company established three banks: The Bank of Bengal in 1809, The Bank of Bombay in 1840, and The Bank of Madras in 1843. These banks were independent units and called Presidency Banks. These three banks were amalgamated in 1920 and a new bank, Imperial Bank of India was established. Later on, in 1885, The Allahabad Bank was established. All these institutions started as private shareholders’ banks and the shareholders were

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\(^2\) Report of the Royal Commission on Agriculture in India, Govt. of India, 1928

\(^3\) Report of the Task Force on Revival of Cooperative Credit Institutions, Chairman Prof. A. Vaidyanathan, Ministry of Finance, Govt. of India, 30 December 2004

\(^4\) Report of the Malcolm Darling Committee, Govt. of India, 1935 and Statutory Report on Rural Credit, Reserve Bank of India, 1937

\(^5\) Leeladhar, V. Ibid (2005)
mostly Europeans. The first bank to be set up exclusively by Indians was the *Punjab National Bank Ltd.*, established in 1894 with its headquarters at Lahore. Most of the other Indian commercial banks, viz. *Bank of India, Central Bank of India, Bank of Baroda*, the *Canara Bank*, the *Indian Bank*, and the *Bank of Mysore* were established between 1906 and 1913. Another major commercial bank that emerged during the pre independence period was *United Commercial Bank* (1943).

**The Reserve Bank of India (RBI)** was established in 1935 by the Reserve Bank of India Act, 1934, promulgated by the Government of India as a shareholders institution like the Bank of England. The setting up of Reserve Bank of India as the central bank of the country was a milestone in the history of banking in the country.

All these banks were exclusively in the private sector and largely confined to urban areas, extending loans primarily to trading sector dealing with agricultural produce. There were a large number of small commercial banks in urban areas also, but banking services were not available to the people living in rural and semi-urban areas. As a result, sectors like agriculture, small industries, self-employed entrepreneurs, artisans, retail traders etc., were highly neglected.

However, the period from 1913 to 1948 witnessed the era of bank failures, wherein the number of bank failures in the country was as many as 1100. The reasons of such large cases of bank failures were, mainly,

- Faulty management policies,
- Unhealthy and unwarranted competition,
- Indiscriminate lending against insufficient and undesirable securities, and
- Some political factors like partition.76

**2.3. The Post Independence Period Scenario of Rural Banking:**

The entire process of institution building during the post-independence period revolved around the country’s need to mobilize savings in order to enhance the rate of capital formation in the country and to channelise the resources to some identified sectors of the economy, notably agriculture and industry. The government was also concerned regarding the policy matters on the provision of

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76 Leeladhar, V. Ibid (2005)
credit through institutional setup to the rural and urban areas. Therefore, developing appropriate institutions and mechanisms for catering to the credit requirements in the country attracted significant attention of the government over the years.

The Government of India, having been concerned over innumerable miseries of small depositors as an outcome of frequent bank failures, enacted *The Banking Companies Act, 1949* [The title of the Act was changed as "Banking Regulation Act, 1949", as per amendment, by Act of 1965 (Act No.23 of 1965)] to provide a framework for regulation and supervision of commercial banking activities in the country. Thus, the Banking Regulation Act, 1949 is the first regulatory step undertaken by the Government to streamline the functioning and activities of commercial banks in India.

Further, to make a close integration between the policies of the Reserve Bank of India and those of the Government, the *Reserve Bank of India (RBI)* was taken up by the Government of India on January 1, 1949. Since then it has been functioning as the Central Bank, the apex body for all matters relating to the banking system of the country.

With the launching of the Five Year plans in 1950s, the objective of economic development had assumed a sense of urgency. At the beginning of planning era in 1951, the Indian economy operated at relatively low levels of saving and investment. In 1951, there were 566 private commercial banks in India with 4,151 branches, but majority of them were confined to larger towns and cities. Savings in the form of bank deposits accounted for less than 1 per cent of national income, forming around 12 per cent of the estimated saving of the household sector.77

However, in the post-Independence period, policies on restructuring of the rural credit system were based largely on the recommendations of the *All India Rural Credit Survey Committee (1954)*. To quote Dandekar (1993), 'the post-independence story of credit for rural development begins with the Report of the Committee of Direction to direct an All-India Rural Credit Survey Committee (briefly AIRCS Committee) set up by Reserve Bank of India (RBI). Its report lies

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at the bottom of the policy, progress, and problems in this field over the past 40 years'.

2.3.1. All India Rural Credit Survey Committee (AIRCSC), 1954:

The Reserve Bank of India has a mandate to monitor and to expedite the pace of growth of rural credit and banking by virtue of the provisions of Section 54 of the RBI Act, 1934. The major initiative in pursuance of this mandate was taken up by the RBI with sponsoring of the Committee of Direction of All India Rural Credit Survey, 1951 (submitted its report in 1954).

The All India Rural Credit Survey Committee (AIRCSC), examined the then existing rural credit delivery system and observed that the credit needs of the poor people are not only for production purposes but also for the family consumption and for the repayment of debts. The Committee also pointed out credit as one of crucial importance for improving and strengthening the capital base and productive capacity in rural areas. It examined the functioning of the co-operatives the main ‘formal’ rural credit institution then existing, and summed up its findings in the celebrated dictum, ‘Co-operation has failed but co-operation must succeed’.

The Survey found that of the only about 3% of the total amount borrowed by cultivators in 1951-52 came from government and cooperatives, and less than 1% from commercial banks. Non-institutional credit agencies accounted for the bulk of lending to cultivators and Commercial bank operations were restricted to urban areas, financing trade and commercial activities. The report concluded that financial backwardness was a root cause of rural poverty, and that commercial banks needed to be harnessed to enable poor rural households to adopt new technologies and production processes, and also to displace ‘evil’ moneylenders who exploited their monopoly power to charge high rates.

To ensure sufficient credit flow to agricultural sector, the Committee recommended a greater role of commercial banks in rural credit so as to fill up the gap in the rural credit system. The Committee emphasized on an Integrated Scheme of Rural Credit (ISRC) to revitalize the process of institutionalization of credit in the country and a co-ordination between credit and other economic

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79 AIRCSC report, RBI, 1954
activities. It stressed on state partnership through contribution to the share capital of co-operative credit institutions and their administration through adequately trained and efficient personnel.

The **Integrated Scheme of Rural Credit**, introduced in pursuance of the recommendation of the All India Rural Credit Survey Committee (1954), heralded the era of not only partnership between the Government and the Co-operative credit institutions; but also a regime characterized by active participation and close supervision by the state. Thus, the AIRCSC report, 1954, is considered to be the classic one which paved the way of ushering in the multi agency system of rural credit in India. In the post-Independence period, policies on restructuring of the rural credit system were based largely on the recommendations of this AIRCSC report, 1954.

In the wake of these recommendations, the government of India for the first time nationalized commercial banking by taking over **The Imperial Bank of India** and renamed it as the **State Bank of India (SBI)** by an Act on July 1, 1955, with the majority shares of RBI. Thus, the State Bank of India became the first commercial bank of the country under the public sector. The stated objective behind the formation of State Bank of India (SBI) was "extension of banking facilities on a large scale, more particularly in the rural and semi-urban areas, and for diverse other public purposes". The SBI, therefore, began to play an instrumental role in extending rural credit and in supplementing the efforts of cooperative institutions. The SBI was obliged to open up branches within 5 years in un-banked centers. The government, in this respect, subsidized the Bank for opening un-remunerative branches in non-urban centers. As a step further, to bring the banking segment under the direct control, the seven banks owned by princely states and now forming subsidiaries of SBI, were taken over by the government in 1960. This brought one-third of the banking segment under the direct control of the Government of India.

Based on the recommendations of AIRCSC, the national and state policies and strategies of the period, aimed at developing co-operatives as strong

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82 This group comprises of seven subsidiaries viz., 1 State Bank of Patiala, 2. State Bank of Hyderabad, 3 State Bank of Travancore, 4 State Bank of Bikaner and Jaipur, 5 State Bank of Mysore, 6 State Bank of Saurashtra, 7 State Bank of Indore.
institutional agencies for delivering agricultural credit. The concern for linking credit to other activities resulted in the reorganization of credit co-operatives in a planned way and led to the formation of a large network of co-operative processing, marketing and storage units with the support of National Co-operative Development Corporation and State Warehousing Corporations. The National Agricultural Credit (Long-Term Operations) Fund and National Agricultural Credit (Stabilization) Fund - were also created in this respect, by the Reserve Bank of India. The RBI facilitated the co-operative banks in their process of converting short-term crop loans into medium-term loans in the event of natural calamities, and thus provided a degree of stabilization by undertaking the impending risks to farmers.

2.3.2. Deposit Insurance Corporation (1962) and Agricultural Refinance Development Corporation (1963):

With a view to ensure the credit needs of agriculture and industry in an organized manner, the commercial banking system was expanded upon the direction of the RBI. However, following the failure of several banks, the RBI concentrated on regulation mechanisms, and the Deposit Insurance Corporation set up in 1962 to provide security to the depositors’ money with the banks. Later on, in 1963 another institution, the Agricultural Refinance Development Corporation (ARDC) was set up by the RBI for meeting the long term credit needs in rural areas.

These initiatives facilitated the process of institutionalization and regulation of the rural financial market in India to some extent. But, the rural credit system continued to be dominated by the informal sector with the prime intention of earning profits based on exploitation through usurious rates of interest.  

On the other hand, the mainstream banking being controlled by industrialists; it mainly served the narrow interests of some particular industries. As a result, lending to agriculture remained dependant totally on the informal sector, mainly money lenders. A need was thus felt for major overhaul of Indian

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* The Deposit Insurance Corporation (DIC) was established by an Act of the Parliament on January 1, 1962. With effect from July 15, 1968, it took over the undertaking of the Credit Guarantee Corporation of India Limited - a public limited company promoted by RBI on January 14, 1971 and it was called the Deposit Insurance and Credit Guarantee Corporation (DICGC). The objective was to integrate the twin and related functions of giving insurance protection to small depositors in banks and providing guarantee cover to credit facilities extended to certain categories of small borrowers particularly those belonging to the weaker sections of the society.

83 Ghatak, S: Rural Money Market; Macmillan Delhi, 1976.
banking system to cater to a large social base. It was believed that in an imperfect market, leaving the decision to allocate resources to banks independently will aggravate the imperfections.

The market imperfections, together with certain conventions and practices of banking, such as not to finance long term investments, not to lend against the collateral like land etc, were seriously inconsistent with the policies relating to the larger economic and fiscal considerations.⁸⁴

2.3.3. All India Rural Credit Review Committee (AIRCRC), 1966 and the National Credit Council, 1968:

The concern over the issue of providing access to institutional credit to the weaker section of society was first expressed by the All India Rural Credit Review Committee (AIRCRC) set up by RBI in 1966 in order to review the existing status of rural credit delivery mechanism and to make recommendations for improving the flow of agricultural credit.⁸⁵ The AIRCRC, in its report submitted in 1969, indicated that the ultimate objective of supplying credit by the moneylenders appeared to grab the assets – moveable or immoveable – furnished as security by the helpless borrowers.⁸⁶ On the recommendations of this committee, the Small Farmers Development Agency (SFDA) and Marginal Farmers' and Agricultural Labourers' (MFAL) Development Agency were established during the Fourth Five-Year Plan period (1969-'74).

During this period, there was a growing realization that co-operative institutions alone could not meet the increasing credit needs of Indian agriculture and required commercial banks’ support. At this juncture, the concept of ‘social control’ was pioneered to ensure an equitable and purposeful distribution of credit keeping in view the relative priorities of developmental needs as well as ushering employment generation and poverty alleviation. To achieve ‘Social control’ over commercial banks National Credit Council was formed by the RBI in 1968.

2.3.4. Nationalisation of commercial banks (1969):

The prevalent view during the last part of 1960’s was that the development of agriculture and rural economy were closely interlinked with the goals of poverty alleviation and reduction in economic inequalities. It was expected that overall

economic development would take place as a result of the ‘Trickle Down’ effect. It was further, recognized at the policy level that alignment of the financial sector in the line of achieving the objectives of the national planning process could hardly be achieved without bringing the commercial banking system at large under ‘social control’. Against this backdrop, the Study Group on “Organisational Framework for Implementation of Social Objectives” (better known as Gadgil Study Group) and the F. K. F. Nariman Committee of Bankers were set up by the RBI in 1969 to review the situation and to recommend policy measures to resolve the issues.

The Study Group, as well as the Nariman Committee had identified serious gaps (both spatial and functional) in banking development, and recommended adoption of an area approach to banking for bridging such gaps. The Study Group recommended involvement of commercial banks in rural credit through branch expansion and direct lending to primary agricultural credit societies (PACS), where District Central Co-operative Banks (DCCBs) were not financially strong. With a view of social control over banks, the Group recommended nationalisation of commercial banks. The central government, consequently, nationalized 14 major commercial banks in July 19, 1969; with the enactment of Bank Company Acquisition Act of 1969. Subsequently, each major commercial bank was given a target for lending to these sectors particularly, after the first phase of nationalisation of 14 commercial banks in 1969.

The preamble to the ‘Bank Company Acquisition Act of 1969’ states the intentions of the Indian government as - “The Banking system touches the lives of millions and has to be inspired by a larger social purpose and has to sub serve national priorities and objectives such as rapid growth of agriculture, small industries and exports, raising of employment levels, encouragement of new entrepreneurs and development of backward areas. For this purpose it is necessary for the government to take direct responsibility for the extension and diversification of banking services and for the working of a substantial part of the banking system”.

The main objectives that led to the nationalisation of commercial banks in 1969 were:

To provide banking services in previously un-banked or under-banked rural areas;

To reduce the concentration of wealth and economic power in the hands of a few persons;

To provide substantial credit to specific activities including agriculture and cottage industries; and to certain disadvantaged groups, for example, Dalit households.

Rapid branch expansion and channeling of credit according to plan priorities.

2.3.5. The Lead Bank Scheme:

With a multi-agency system operating even within the formal component of the Rural Finance Sector, it was recognized across the board that without a systematic approach particularly to credit planning, it would not be possible to achieve the goals of development and poverty alleviation set by the policy planners in the country. It is against this backdrop the Lead Bank Scheme (LBS) was launched by the Reserve Bank of India in December 1969 following the recommendation of the Gadgil Study Group, constituted by the National Credit Council of RBI. The Study Group had identified serious gaps in banking development, and had, recommended adoption of an area approach to banking for bridging such gaps. It was suggested that a system be evolved whereby commercial banks, particularly those in the public sector, be entrusted with the responsibility of leading the process of extending banking facilities in specified areas, say districts.

Under LBS all districts of the country excluding the metropolitan areas were assigned to one or the other commercial banks under the ‘lead responsibility’ of such banks. Responsibilities assigned to the lead banks consisted, among other things, of undertaking a quick survey in respect of each of the districts allotted to these banks with a view inter alia, to identifying the hitherto un-banked centres requiring expansion of bank branches at such centres. The conduct of the surveys was followed by opening of branches by both lead as well as non-lead banks at the centres so identified. Against a total number of 8,321 commercial bank branches as in July 1969 (out of which only 1,860 constituting about 22% of the total were located in rural areas), as many as 24,098 new
branches were opened till June 1980, a vast majority of which (precisely 17,975 accounting for 74.6 per cent) were set up at rural and semi urban centres.

2.3.6. The concept of Priority Sector lending:

During the period before nationalisation of banks, important sectors of the economy including agriculture remained thoroughly neglected in terms of availability of institutional credit. This was also revealed at the meeting of the National Credit Council held in July 1968 and it was emphasised that commercial banks should increase their involvement in financing the sectors, like, agriculture and small-scale industries. Therefore, one of the most important objectives of first phase of nationalisation of 14 commercial banks in 1969, was, thus to extend and expand credit not only to those sectors which were of crucial importance in terms of their contribution to national income and employment, but also to those sectors which had been severely neglected in terms of access to institutional credit. After the first phase of nationalisation of 14 commercial banks in 1969, the government as well as the RBI sought to ensure an equitable and purposeful distribution of credit, keeping in view the relative priorities of developmental needs, as well as, to provide a momentum to the process of development, employment generation and poverty alleviation. The sectors that were initially identified for this purpose were agriculture, small-scale industry, small business enterprises, professional and self-employed, retail trade, transport (small road and water transport operators), export, housing, education as well as weaker sections of society which were neglected so far by the commercial banks in their lending activities. These sectors were to be accorded priority status in credit allocation by the banks.

The description of the priority sectors was later formalised in 1972 on the basis of the report submitted by the Informal Study Group on Statistics relating to advances to the Priority Sectors constituted by the Reserve Bank in May 1971. Although initially there was no specific target fixed in respect of priority sector lending, in November 1974 the banks were advised to raise the share of these sectors in their aggregate advances to the level of 33.33 per cent by March 1979.

The obligation to provide a wide spread coverage for these types of advances necessitated the Banks to change the basic culture of their lending exercise, which was till then confined primarily to big businessmen and traders locating their operations predominately in the metropolitan and urban centers.
These necessitated commercial banks to move to the rural and semi-urban centers and to hitherto un-banked / under-banked areas in order to fulfill their new responsibility and thus gave a boost to the institutional lending in rural areas.

At a meeting of the Union Finance Minister with the Chief Executive Officers of public sector banks held in March 1980, it was agreed that banks should aim at raising the proportion of their advances to priority sector to 40 per cent by March 1985. Subsequently, on the basis of the recommendations of the Working Group on the Modalities of Implementation of Priority Sector Lending and the Twenty Point Economic Programme by Banks in 1981 (Chairman: Dr. K. S. Krishnaswamy), all commercial banks were advised to achieve the target of priority sector lending at 40 per cent of aggregate bank advances by 1985. Sub-targets were also specified for lending to agriculture and the weaker sections within the priority sector. Since then, there have been several changes in the scope of priority sector lending and the targets and sub-targets applicable to various bank groups.

The Committee on the Financial System (Narashimham Committee, 1991), among other things, recommended a reconsideration of the policy of directed investments and directed credit programmes, as well as the interest rate structure pertaining to these. Thus it suggested that priority sector credit as hitherto defined should be phased out. It also recommended that the concept of priority sector itself be re-defined to target only the truly needy, viz. the small farmer and the tiny sector in industry and that the credit to this redefined priority sector should be only 10 per cent of total bank credit. Following the recommendations of the Committee the definition of priority sector has gradually been diluted.

In 2005, the Reserve Bank of India constituted a committee chaired by Shri C. S. Murthy to examine, review and recommend changes, if any, in the existing policy on priority sector lending including the segments constituting the priority sector, targets and sub-targets, etc. and the comments/suggestions received thereon from banks, financial institutions, public and the Indian Banks' Association (IBA). On the basis of its recommendations made in September 2005 it was decided to include only those sectors as part of the priority sector, that impact large sections of the population, the weaker sections and the sectors which are employment-intensive such as agriculture, and tiny and small enterprises.
2.4. Early Phase of Rural Banking - The Genesis of Regional Rural Banks (RRBs):

The period from 1969 to 1975, i.e. the period from the year of nationalisation of commercial banking to the year of the formation of RRBs may be considered as the first stage of institutionalisation of rural banking in post-independent India.

The Government of India and the Reserve Bank of India (RBI) from time to time issued specific directives regarding “social and development banking”. These included setting targets for the expansion of rural branches, imposing ceilings on interest rates, and setting guidelines for the sectoral allocation of credit. To bring large areas of economic activities within the organised banking system, the branch expansion program was taken as an integral part of India’s social banking after the nationalisation. The Branch expansion programme sought to improve the access of the rural poor to cheap formal credit.

2.4.1. The Banking Commission, 1972:

After the nationalization of banks in 1969, there was an unprecedented growth of commercial banking in terms of both geographical spread and functional reach. During this period the branch licensing rule caused financially less developed states to attract more rural branches than their more financially developed counterparts. But despite all these, the supply of institutional credit to rural areas was considered to be inadequate compared to the demand for it. The major lacunae associated with providing credit to the Indian countryside may be attributed to:

i) Inadequate supply of formal sector credit to the countryside as a whole.

ii) Imperfect and fragmented rural credit markets.

iii) Unequal distribution of formal credit with respect to region, class, caste and gender.

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# Key to the rural branch expansion endeavor was the imposition of the 1 4 license rule in 1977, by the RBI. This rule stated that a bank could open a branch in a location with one or more branches only if it opened four in unbanked locations. This rule was abandoned in 1990. Using a panel data-set for the sixteen major Indian states (1961-2000), Burgess and Pande (2003) showed that, between 1977 and 1990, the 1 4 license rule caused financially less developed states to attract more rural branches than their more financially developed counterparts. The reverse was true outside this period. The rapid increase in the rural branch network and rural credit and savings share after bank nationalization in 1969, and the subsequent slowdown post-1990, are widely documented by Nair (2000).

iv) Predominance of informal sector as major source of credit to rural households, with usurious rates of interest.

It was felt that “The cooperatives and commercial banks were unable to meet all planned credit requirements of the rural areas”\endnote{89}. Therefore, a sound system of institutions and instruments of financial intermediation for rural masses considered essential for promoting an efficient production system as well as for addressing the issues connected to livelihood, security and development of the rural sector at large.

Under this backdrop, the Banking Commission was established by the Government of India in 1972 to find out the various alternatives for setting up a healthy rural banking system in the country to serve the rural poor and finance the credit needs of growing agriculture. After examining the record of the expansion of the commercial banks’ activities, the Commission in its report in 1972 for the first time proposed for the setting up of Rural Banks to speed up the flow of institutional credit, especially to meet the needs of the weaker section of the rural community.

2.4.2. Narashimham Group, 1975:

Accepting the recommendation of the Banking Commission for setting up rural banks, the Government of India, in 1975, appointed a “Working Group on Rural Banks” under the chairmanship of Shri M. Narashimham, to examine in depth the possibilities of setting up of new rural banks as subsidiaries of public sector banks to cater the needs of the rural people. The Group in its report Dated 30\textsuperscript{th} July, 1975; pointed out, inter alia, that the commercial banks in the country suffered from two major weaknesses in dispensing rural credit. These were:

1. The high cost structure and
2. Their attitudinal character which is basically urban oriented.\endnote{90}

The Group held the view that the existing institutions would not be able to fill the regional and functional gaps in the rural credit institutional system within reasonable time even with reorganization. In its report, the Group mentioned that “In a country of the size and regional diversity as ours, no single pattern, be it

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\endnote{89} Report of the Banking Commission. 1972, GOI
\endnote{90} Dutta, S K. Service Conditions and Discipline Code in RRBs”, Govind Prakashan, 37, Nataraj Nagar, Jaipur-302015, 1991, pp 133-154
commercial banks or cooperative credit societies, can be expected to meet the emerging requirements in all areas"\(^91\). It proposed, therefore, the establishment of a new type of institution which are state-sponsored, region-based and rural-oriented banks, called **Regional Rural Banks (RRBs)**. The RRBs were expected to have the qualities which "combine the local feel and familiarity with rural problems, which cooperatives possess and the degree of business organisation, ability to mobilise deposits, access to central money markets and modern outlook which the commercial banks have..... The role of the new institution would be to supplement and not to supplant the other institutional agencies in the field"\(^92\). It had justified the need for the new institutional structure for rural credit delivery system by making observation that "The rural credit delivery system in India requires a combination of the local feel and the familiarity with the rural problems which the cooperatives possess and the degree of business ability to mobilise deposits, access to central money markets and a modernized outlook which the commercial banks have"\(^93\).

### 2.4.3. **Formation of Regional Rural Banks (1975):**

The recommendations of the Working Group were implemented most speedily and the RRBs started their journey with the establishment of 5 RRBs in the states of Uttar Pradesh, Haryana, Rajasthan, and West Bengal on 2nd October 1975 after the 'Regional Rural Banks Ordinance' was promulgated by the President of India, on September 26, 1975. This Ordinance was subsequently replaced by the 'Regional Rural Banks Act of 1976'.

Thus, even though a number of financial institutions in the organised and unorganized sectors existed, the scheme of Regional Rural Banks (RRBs) added a new dimension to the Banking system in India and a multi-agency approach in rural banking was initiated.

According to this Act, the Regional Rural Banks (RRBs) were to be set up mainly "with a view to develop the rural economy by providing, for the purpose of development 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."

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\(^91\) Report of the Working group on Rural Banks (Narasimham Committee Report), GOI, 30th July, 1975
\(^92\) Ibid GOI, 30th July, 1975
\(^93\) Ibid GOI, 30th July, 1975
and for matters connected therewith and incidental thereto". The major objective of these RRBs was to mobilize resources from the region and deploy them within the rural populace of the same region.

The main features of the RRBs Act 1976 were:

i) **Jurisdiction**: The jurisdiction of each RRB was to be within specified districts in the state and that of its branches within the specified districts with the homogeneity in agro-climatic conditions and rural clientele. A branch office is to cover generally 1 to 3 blocks and be in a position to finance 5 to 10 Farmers' Service Societies (FSS).

ii) **Sponsorship**: Each RRB is to be set up by the initiative of the State Government and Central Government but to be sponsored by a scheduled commercial bank (mainly by a public sector bank). The sponsor bank was to provide assistance to the RRB through subscription to its share capital, provision of managerial and other staff and financial assistance on mutually negotiable terms.

iii) **Capital structure**: The authorized capital of each of RRB was placed at Rs. 1 crore and the issued capital at Rs. 25 lakhs. The issued capital would be subscribed by the Government of India, the sponsor bank and the concerned state government in the proportion of 50%, 35% and 15% respectively.

iv) **Management structure**: The management of a RRB is vested in a nine-member Board of Directors headed by a chair man with the following structure:

   a) A Chairman deputed by a sponsor bank but appointed by the Govt. of India.

   b) Three directors to be nominated the Central Govt.

   c) Two directors to be nominated by the concerned State Govt.

   d) Three directors to be nominated by the sponsor bank.

   However, the different sections of the Act dealing with the management structure empower the sponsor bank to play a key role in the functioning of the respective RRBs.

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94 Regional Rural Banks Act, Feb 9, 1976
For example,

- Only on request of a Sponsor Bank, Central Government would consider establishment of a RRB [Section 3 of Chapter II].
- The Sponsor Bank will contribute thirty five per cent of issued capital of its RRB [under Section 6(2)].
- Two directors, who are officers of the Sponsor Bank, shall be nominated on the Board of RRB [(under Section 9(d)].
- The Sponsor Bank shall appoint an individual to be the Chairman of a RRB and specify the period not exceeding five years (under Section 11).
- The Sponsor Bank shall have the right to remove the Chairman at any time [under Section 11(4)].
- The Sponsor Bank shall depute to RRB number of officers or other employees as may be necessary or desirable (Section 17 of RRB Act, 1976).

Government of India and Reserve Bank of India has further issued the directives mentioning that 'for overall management of the RRBs it would be the responsibility of the Sponsor Bank to guide the RRBs in various matters on human resource management, computerization, business development, branch expansion, etc.' Sponsor Bank also directly helps RRBs in matters of daily cash remittances, overdraft facility, decisions on investments, etc.

v) **Functions:** Every RRB may undertake the following types of functions:

- The granting of loans and advances particularly to small and marginal farmers and agricultural labourers individually or to a group, co-operative societies, agricultural processing societies, co-operative farming societies, etc.
- The Granting of loans and advances to artisans, small entrepreneurs and small traders, businessmen, etc.

The number of RRBs increased from 5 in 1975 to 196 by 1987 and today the country has 196 RRBs employing 68936 persons, sponsored by 29 sponsoring banks, operating in 522 districts with 14,484 branches. Since inception, the RRBs have emerged as purveyor of credit requirements of the weaker sections of the rural community - small and marginal farmers, agricultural labourers, small traders, rural artisans, and so on. Along with commercial banks, they participated

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95 Report on the performance of RRBs, 2005 NABARD Mumbai
vigorously in poverty alleviation schemes (Integrated Rural Development Programme and Disadvantaged Area Programmes like Drought-prone, Desert Development) and quickly became an integral part of the rural credit delivery system.

2.5. The Second Phase of Rural Banking (1975-1991):

The second phase of rural banking in India may be said to have began after the formation of RRBs in 1975 and continued till 1991, prior to the financial sector reforms.

During this period, several working Groups and Committees were set up by RBI, NABARD and the Government of India at various points of time to deliberate on issues relating to RRBs and suggest measures to address the same. The focus has varied over time depending on the immediate concerns and the prevailing policy regime. While some of the issues relating to RRBs have lost their significance over time, others have become more relevant. Some of these committee recommendations which continue to be important in the context of the present study are as below:

2.5.1. Dantwala Committee (1977):

A Review Committee on RRBs was appointed by the Reserve Bank of India in June 1977 under the chairmanship of Prof. M.L. Dantwala, to evaluate the performance of RRBs in the light of the objectives for which they were established, to indicate their precise role in the rural credit structure and to make recommendations with regard to the scope, methods and procedures of their functioning and other matters relevant to the enquiry. The report of the Committee, submitted in February, 1978, expressed the view that “The superiority of the RRBs as an agency of rural credit over the rural branches of the commercial banks is derived from the relatively low cost of operations, simplicity, local participation in management, feel and familiarity of the local stuff and close association of the district level agricultural and rural development agencies and personnel”. From the view point of financial viability and managerial efficiency, the committee suggested that there should be reasonable number of branches in between 50-60 under each RRB and they should be set up in those areas where the cooperatives were not able to serve adequately the credit requirements of different

96 Report of the Review Committee on RRBs, Government of India, 1978
economic units in rural areas. This recommendation of the Committee formed the basis for branch licensing policy during 1979-1981.

2.5.2. The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural development (CRAFICARD) (1979):

In 1979, the RBI appointed a Committee to Review Arrangements for Institutional Credit for Agriculture and Rural development (CRAFICARD) chaired by B. Sivaraman to review the institutional arrangements for agricultural and rural credit facilities and to evolve a process to co-ordinate these institutions along with the national objectives. The Committee in its report in 1981 recommended that the sponsor banks should take initiative to open up RRB branches in rural areas and find out a programme of transferring the business of their rural branches to the RRBs on a mutually agreed terms and conditions. In its final report the CRAFICARD, endorsed the findings of Dantwala Committee (1977) and found RRBs as one of the important instrument for providing rural credit. However, it expressed its view that the system of control over the RRBs is needlessly complex and overriding each other. Therefore, as the first step of simplification, the committee suggested the withdrawal of the central government from the operational aspect of the scheme. As regards to the capital structure, the committee suggested local participation for better operational efficiency and for efficient credit delivery system at the ground level. Therefore, to incorporate local participation, the committee recommended the capital structure of RRBs as - RBI-25%, Sponsoring Bank-40%, State Government 15% and local participation 20%.

However, during this period six more commercial banks were annexed to the nationalized banking index of the country with the second phase of nationalisation of in 1980 and thus extended the domain of public control over the banking system.

2.5.3. Rural Planning and Credit Cell Survey (1980):

In 1980, the Rural Planning and Credit Cell was formed by the Reserve Bank of India. It undertook a quick survey to look into the aspects of viability of RRBs. The study covered 15 RRBs which had completed 3 years of existence or reached the lending business of Rs.3 crore by 31st December 1978.

97 The RRBs are controlled by i) the steering Committee appointed by the Central Government, ii) the State Government and iii)the RBI.
The Survey observed that RRBs had so far been able to achieve the main objective of financing the weaker section, viz., small farmers, landless agricultural labourers and rural artisans. The Cell opined that three years period was inadequate for the institutions like RRBs to achieve viability as they were to operate under constraints of the policy objectives such as lending only to the weaker sections of society who are the targeted group, charging lower rate of interest on loans than that charged by the commercial banks, opening of branches in the remote and unbanked rural areas, keeping up a low cost profile, lending to the priority sector, financing the poverty alleviation schemes sponsored by the Central and the State government, and so on. At the same time the Cell was optimistic in attaining viability of the RRBs within a period of about 6 years.

2.5.4. Formation of NABARD (1982):

Upon the recommendations of the Committee (CRAFICARD) for an integrated approach in rural banking, the National Bank for Agricultural and Rural Development (NABARD) was formed on July 12, 1982 and gave a new dimension in the field of rural banking in India. The objectives behind the formation of NABARD were:

- to facilitate credit flow for agriculture with a view to promote and support policies, practices and innovations conducive to rural development,
- strengthening rural credit delivery system through institutional development measures, focusing on poverty alleviation and employment generation and
- To promote and supervise rural financial institutions like the co-operative banks and Regional Rural Banks (RRBs).

The establishment of NABARD as an apex institution to look after the rural banking activities is considered to be another landmark in the history of rural banking in India. Thus with the formation of the NABARD the RRBs came under the multiple supervision, regulation and control.98

2.5.5. The Working Group (Kelkar Committee, 1986):

In 1986, RBI appointed the Working Group headed by S.M. Kelkar to take note of the deficiencies in the system of RRBs and make comprehensive recommendations covering both the organizational and operational aspects of RRBs.

98 The controlling authorities are the RBI, the sponsor bank, the government and the NABARD
The Working Group recognized the phenomenal progress of RRBs in expanding the branch network, mobilizing rural savings and improving the access of rural poor to the institutional credit. It reaffirmed the faith in the institution of regional rural banks but observed that the viability of the RRBs was strained as most of them were not profitable. It made elaborate suggestion to improve the viability, operational efficiency and managerial effectiveness of these banks and recommended to increase their paid up share capital to Rs.1 crore and correspondingly the authorized capital to Rs.5 crore without disturbing the then composition of shareholders and their respective share in the paid up share capital.

A few of the recommendations of the Working Group were, accepted by the Union Government. For example,

i) The authorized capital of RRBs has been increased from Rs.1 crore to Rs.5 crore and paid-up share capital from Rs.25 lakhs to Rs.1 crore.

ii) The sponsor banks have been empowered to monitor the progress of RRBs and also to arrange for their inspection, internal audit etc.

2.5.6. Agricultural Credit Review Committee (Khusro Committee) (1989):

The Agricultural Credit Review Committee (ACRC) (1989) headed by Prof. A.M. Khusro, reviewed the achievements of the agricultural credit delivery system in respect of its number and geographical outreach and pointed out several weaknesses in the rural credit system such as, weak recycling of fund, poor deposit mobilization, ineffective lending, poor loan recovery, etc. According to the Committee, all these had led to the poor viability of the RRBs.

Thus the committee observed that the RRBs which were fashioned as low cost institutional set up to look after the credit needs of the weaker sections of the rural society, the ‘Poor Man’s Bank’ had degenerated into the ‘sick man’ of the Indian rural credit structure. Further, the ACRC observed that RRBs were no longer enjoyed a low cost advantage since their pay scales were almost the same as those of commercial banks. Finally, the ACRC expressed its view that RRBs have no place in rural credit system since commercial banks had already expanded their rural network and therefore recommended the merger of RRBs with their sponsor banks.

99 After the acceptance of the National Industrial Tribunal Award 1991 and the pay parity between the salary structures of the RRBs and the commercial banks is now well established.
However, the recommendations of the ACRC were not implemented by the Government as it would go against the philosophy behind the establishment of RRBs.

2.5.7. **All India Debt and Investment Survey (1991-92):**

The **All India Debt and Investment Survey, 1991-92**, observed that the share of debt in case of rural households to formal institutional agencies has increased from 61.2 per cent in 1981 to 64 per cent in 1991. While the predominant role of the formal system in addressing the credit requirements of rural households was evident, the fact remained that around 36%\(^{100}\) of rural credit was met by non-formal sources.

The other important observations of the survey were:

- The formal institutions have proved inadequate to support hi-tech, high value agriculture in an era of globalization and the desired linkages with the supportive systems, e.g. research, extension, input supply, processing and marketing have not been developed.

- The financial and organisational strength of a large number of rural financial institutions (RFIs) have weakened partly due to pressure for achieving the targets of credit dispensation under government-sponsored programmes irrespective of the borrowers’ capacity to make the venture succeed. It led to poor quality of loan assets and loan losses.

- The legal and regulatory mechanisms have not proved to be adequate.

- Even specialized institutions (like RRBs) and focused programmes (like IRDP/SGSY), meant for the poor, have failed to a great extent in effectively benefiting the poor.

- The households in the lower asset groups were more dependent on the non-institutional credit agencies.

- The collateral considerations coupled with inadequacy of funds disbursed, delay in disposal and uncertainty (often associated with formal sector loans) had resulted in high transaction costs for the borrowers. Moreover, the major benefits of institutional finance went largely to the better off.\(^{101}\)

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\(^{100}\) It reduced marginally from 38.8% to 36% over the last decade (1981 - 1991)

\(^{101}\) NANDA Y C 'India: An overview of rural financial system and services', NABARD, Mumbai, 2000
• Factors like poor quality of credit delivery, faulty project design, politicisation and natural calamities, etc. have been found responsible for mounting overdues in rural financial institutions.


At the time of nationalisation of private sector banks in 1969, the prime concern was to use resources available with these institutions for supporting the growth of priority sectors, viz. agriculture, small and village industries, artisans, etc. The assumption then was that credit could ensure faster growth. The planners adopted a supply side approach which was the need of the hour. The policy environment created during that time was primarily to pursue the agenda of social banking. The regulatory framework primarily focused on regulation of interest rate, preemption of resources, restricted investment avenue and expansion of banking network in backward areas. With multi-agency approach, banking network in the rural areas has made its formidable presence in providing rural financial services as well as in priority sectors.

The massive and speedy expansion and diversification of banking in the country has led to deterioration in the quality of credit portfolio of banks. Banks were carrying a substantial amount of NPAs including advances to sick units. Inadequate recovery of claims impaired the banking system’s ability to recycle funds and eroded profitability.

In 1991, there was a grave crisis encompassing all frontiers of the economy. The country went through a serious balance of payments situation. The deficit in current account of balance of payments of the country touched about 3.2% of the GDP in 1990-91, which was considered to be quite high. There was increased oil pool deficit, a severe resource crunch and the financial deficit of the Government of India had touched 8.35% of the GDP. All these led to a downgraded credit rating of the economy at international level.

In response to this crisis a set of policies aimed at stabilization and structural reforms was to put in place. The stabilization policies were aimed at correcting the weaknesses that had developed on the fiscal, monetary and Balance of Payments fronts. As a part of the structural reform measures, the RBI set up a

102 Rangarajan, C. 'Structural Reforms in Industry, Banking and Finance: A case Study of India', Institute of South Asian Studies, Singapore, 2000
Committee on Financial System under the chairmanship of Shri M. Narashimham in August 1991 to recommend on financial sector reform.

The first phase of financial reforms, started with the recommendations of the Committee on the Financial System (The Narashimham Committee I), aimed at providing the necessary platform to foster competition in the banking sector to operate on the basis of operational flexibility and functional autonomy, and thereby enhancing efficiency, productivity and profitability. In its very first paragraph, the report of the Narashimham Committee called for "a vibrant and competitive financial system....to sustain the ongoing reform in the structural aspects of the real economy".\(^{103}\)

Some of the important recommendations of the Narashimham Committee on Financial System were:

- Interest rates be deregulated,
- That capital adequacy norms be changed to increase the competitive strength of the Indian banks,
- Branch licensing policy be revoked and a new institutional structure, that is "market driven and based on profitability" be created,
- Banking policy be guided more by the market than by the regulations set by the public authority,
- The part played by the private Indian and foreign banks is to be enlarged,
- The application of widely accepted prudential norms of income recognition, asset classification and provisioning to the banking industry,
- The SLR should be reduced to 25% over a period of 5 years in a phased manner,
- The CRR should be reduced from its present high level in a phased manner and the interest paid to the banks on their CRR and SLR should be increased,
- The priority sector should be redefined to comprise the small and marginal farmers, the tiny sector of the industry, small business, rural artisans and other weaker sectors and the credit targets for this redefined sector should be fixed at 10% of the aggregate credit,

• The interest rate on government securities may also be brought in line with market determined rates and concessional rates should be phased out,

• Banks and financial institutions should achieve a minimum 4% capital adequacy ratio by May 1993 and the Basle Committee Report on International Standards of 8% should be achieved by 1996,

• Balance sheets should be made transparent and full disclosure as recommended by the international Accounting Standards Committee substantial and speedy liberalisation of capital markets.

2.7. The Third Phase of Rural Banking (Impact of financial sector Reform measures):

The financial sector reform measures have made a sea change in the entire banking system and rural financial institutions like RRBs are not exceptions. With the major thrust on commercial considerations, the RRBs faced a complete new operational environment in post reform period. The application of the prudential norms on income recognition, asset classification and provisioning to the banking industry has moved it gradually from totally regulated environment to a deregulated market driven competitive system.104

Following the Narashimham Committee recommendations, the Reserve Bank of India advised the RRBs to make a general provision at a minimum rate of 0.25 per cent on standard assets from the year ending March 31, 2000.1

To make the RRBs profitable, the following measures have so far been adopted.

• The priority sector has been redefined to reduce the negative impact of the directed lending on profitability and viability of the rural financial institutions, as per the recommendations of the Narashimham Committee (1991)

• The RRBs were allowed complete freedom on rates of interest they could charge.


1 The RRBs are to classify an asset as doubtful if it remained in sub-standard category for 18 months instead of 24 months after March 31, 2001. In case of accounts with potential threat of recovery on account of erosion in the value of security, etc. such accounts should be straightaway classified as doubtful or loss assets, as the case may be, irrespective of the period for which these have remained as non performing assets.
All RRBs have been advised by the NABARD, to prepare Bank-specific Development Action Plans (DAPs) during the year 1994-95 covering a period of five years.

For ensuring performance according to these DAPs, the RRBs have signed Memorandum of Understanding (MoU) with their sponsor banks.

The income recognition and asset classification (IRAC) norms have been introduced for the RRBs from 1995-96 and the provisioning norms from 1996-97. Some of these norms have been tightened during 2000-01. The capital adequacy norms are yet to be introduced in the case of RRBs.

In order to strengthen the capital base of the RRBs, a recapitalisation programme has been undertaken under which 187 RRBs have been extended financial support to the extent of Rs.21.88 billion (in six phases up to 31 January 2001) by their shareholders.

The restrictive connotations of the service area scheme have been relaxed to enable RRBs to provide a level playing field.

The mandate given to the RRBs to confine their lendings to the weaker sections has been amended.

They have been permitted to relocate their loss-making branches to better business location / centers and open extension counters.

These banks have been allowed to lend bigger amounts to the non-target groups up to 60% of their fresh lending and have also been permitted to lend for various non-priority sector purposes up to 10% of their fresh lending.

Select RRBs have been permitted to collect NRI deposits.

RRBs were also allowed to under take new types of business like issue of guarantees, Demand Drafts, Traveler's cheques, locker facilities etc.

The branches of RRBs are now permitted to undertake lending business even outside their service area within the jurisdiction of each RRB.

Many RRBs have been identified by NABARD as Self Help Promotional Institutions for extension of micro finance.

To change the mindsets of employees and staff in the new environment, a non-conventional training programme known as Organisational Development Intervention (ODI) and other training programmes on areas of asset-liability management, funds management, industrial relations, etc. have been launched.

However, the banking sector reform measures of 1991 were severely criticized on the ground that no attempt was made to bring rural banking closer to the poor. Instead, it has thrown the entire structure of social and development banking overboard. Moreover, it failed to take account of the structural features of the Indian economy. Despite implementation of reform measures, a large number of RRBs have reported sizeable losses in the first few years of the application of these norms. The situation became grave when “150 RRBs out of 196 incurred losses in each of the years from 1989 to 1994 and many of them had completely eroded their equity and resources and in some cases the losses were eating into deposits.” The profitability of RRBs, though improved in the years 1995-96 and 1996-97, profit was overshadowed due to the introduction of

105 Kanvinde, D.J. key note paper: 'Impact of Liberalisation on the rural Credit system', Bank Economists' conference, 1993
110 Joshi V. C. and Joshi V. V. 1998 –Managing Indian Banks – the Challenges Ahead- Sage Publications, N. Delhi
b) "Monetary and Financial Sector Reforms in India", Presentation at The Indian Economy Conference. Program on Comparative Economic Development(PCED) at Cornell University, USA, on April 19-20, 2002
118 Kamesam, V. 'Challenges before the Indian Banking Industry' Governor, Reserve Bank of India, - paper presented at the Annual General Meeting of the Indian Banks' Association at Mumbai (on 31st Aug,2002)
120 Budget speech by Hon'ble Union Finance Minister on 28th Feb. 1994.
prudential norms of Asset Classification, Income Recognition and Provisioning for the RRBs.

### Table 2.1

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<th>Region-wise Credit-Deposit ratio of the RRBs (in percentage)</th>
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The RRBs, in their drive to contain the menace of NPAs, have adopted the policy to invest in alternatives other than loans and advances, viz. in the form of deposits with sponsor banks, government and other trustee securities. As a result, Credit-deposit ratios (CDR) of RRBs and rural branches of commercial banks have continued to drop year after year (Table-2.1), indicating a clear shift in policy from making loans to keeping funds safely in investment channels, and thereby, transferring resources away from rural areas. The non-priority sector advances by the RRBs have also increased sharply since the second-half of the 1990s due to a deliberate strategy to improve viability. Thus the RRBs have been able to raise their profitability by refusing to serve low-income clienteles which are contrary to the very concept and philosophy behind formation of RRBs121. The increase in their share of investment assets in their portfolios is also evidenced from the fact that the interest income on investments was about 52 percent of the total income in 2003 while interest on advances was 37 percent of the income [Vyas Committee]. As a resultant effect of all these, a reverse flows of funds from the rural to the urban areas have been happening in the case of rural banking, more especially in case of RRBs.

In order to formulate a strategy for increasing investment in agriculture the Government of India, in the Union Budget, 1995-1996, introduced a scheme for setting up of Rural Infrastructure Development Fund (RIDF) with

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contributions by the commercial banks and RRBs to the extent of their shortfall in their priority sector/agricultural lending. The RIDF was established by NABARD for assisting the State Governments and State-owned Corporations in quick completion of on-going projects relating to minor and medium irrigation, soil conservation, watershed management and other forms of rural infrastructure. Subsequently, the RIDF was extended on a year-to-year basis by announcements in the subsequent Union Budgets.

2.7.1. Bhandari Committee, 1994 and Basu Committee, 1995

NABARD in pursuance of RBI constituted a committee under the Chairmanship of Dr. M.C. Bhandari in 1994 to find out the possibilities of restructuring as a way out of the enormous losses. In 1995, Basu Committee was also set up by the Reserve Bank of India for its view on second phase restructuring of RRBs.

Both the committees recommended in favour of comprehensive restructuring of RRBs. Accordingly, 68 RRBs were selected for comprehensive restructuring. The initiatives were in the areas of interest rates, relocation of branches, credit allocation, and direction of credit and manpower in simultaneously with the infusion of capital. Accordingly the Government of India released a sum of Rs. 223.57 crore during 1995-96 for the restructuring of 53 RRBs out of selected 70 RRBs. A provision of Rs. 200 crore was made in the union budget for 1996-97 for recapitalization of 70(68+2) RRBs in 1996-97, and the budget for 1997-98 provided for Rs. 270 crore for recapitalization of RRBs.

2.7.2. Expert Group on RRBs (Thingalaya Committee), 1997

The Expert Group on RRBs set up by NABARD headed by Dr. N. K. Thingalaya (1997) to review its supervisory role, has recommended 8% capital adequacy norms for cooperative banks and regional rural banks. It has also called for setting up of an autonomous board of supervision for cooperative banks and regional rural banks (RRBs). The committee has strongly emphasized recapitalisation of cooperative banks and RRBs to enable them to reach the 4% capital adequacy level by March 31, 1999, after cleansing balance sheets. It also

* Such as Rural Drinking Water schemes, soil conservation, Rural Market yards, Rural Health Centres and Primary Schools, Mini Hydel Plants, Shishu Shiksha Kendras, Anganwadis, projects undertaken by Panchayat Raj Institutions, system improvement under Power sector, community irrigation wells, watershed development/reclamation of waterlogged areas, drainage, flood protection, apna mandi, rural haats and other marketing infrastructure, seed/agriculture/horticulture farms, plantation and horticulture, etc., were added to the list of eligible activities under RIDF.
suggested merger of RRBs, which cannot become viable in a reasonable period of time, with neighbouring units. But such merger, however, should be based on the ability of the stronger partner to absorb the weaker ones with linguistic or area or sponsor bank or age compatibility. It also observed that the only proper action in case of patently nonviable RRBs was the liquidation or take over by some interested party (non-banking financial companies, NGOs, voluntary organisation, etc).


In the era of globalization, financial sector conglomeration and ‘bundling’ in the provision of financial services, there was a need for further strengthening of the regulatory and supervisory regime to ensure stability of the financial system. Recognising the above needs, the Government of India, in 1997, set up the Committee on Banking Sector Reforms under the Chairmanship of Shri M. Narasimham, to review the implementation of financial reforms recommended by the earlier Committees and to suggest further reforms necessary in future to make India’s banking system stronger and better equipped. A second phase of financial sector reforms thus started with the report of the Committee on Banking Sector Reforms under the Chairmanship of Shri M. Narasimham in 1998.

The policy initiatives taken as a result of the second phase of banking sector reforms included strengthening the capital base of banks, aligning prudential norms more closer to international standards, removal of rigidities in the legal system and providing more comfort level to banks in recovery of dues, reduction of Government Shareholding in Government owned banks, encouraging banks to adopt latest tools in mitigating the various types of risks associated with their operations, enhancing transparency in banks’ balance sheet, entry of new private sector banks, etc. The RRBs were also included under the strict regulations of the prudential norms.

2.8.1. Expert Committee on Rural Credit (Vyas Committee), 2001:

To review the totality of rural credit system and to identify the institutional issues and finding their solutions in the areas like structure of the institutions instruments used by them for recovery of loans, administrative bottlenecks, etc an ‘Expert Committee on Rural Credit’ was set up by NABARD in august 2000 under the chairmanship of Prof. V.S.Vyas, to discuss and recommend on various
aspects of rural credit delivery system in terms of its organisational components and in terms of economic and policy environment in which it has to function.

The Committee in its report submitted on 23rd July, 2001 opined that the regional rural banks have done better than co-operatives and other banks in the areas of attracting deposits, lending to small businesses and small borrowal' accounts. It also pointed out "More than half of their investments comprise deposits with sponsor banks. Their credit deposits ratios have continued to drop despite growth in advances and improvement in recoveries. Profitability has been restored to some extent. Out of 196 RRBs 162 showed profits in 1999-2000 and out of them, 55 had wiped out accumulated losses as well. RRBs have shown some signs of revival, but are still all too strongly tied to sponsor banks through deposits"122.

Focusing on the issue of viability of RRBs the Committee pointed out that the viability of the RRBs depends not on the size alone but on a number of factors, viz., the level and the quality of business, recoveries, leadership and the shareholder's support. At the same time, the committee had pointed out that these institutions require greater attention from the central government, state governments, sponsoring banks and NABARD to help them to come out from the problem of non-viability.

As a remedy to the problem of viability of RRBs, the Committee recommended their reorganization through selective merger 'depending on the stronger partner's ability to absorb the weaker one and compatibility of area and sponsor banks, subject to the acceptance by the stakeholders including RRB employees and in case of patently non-viable RRBs, the option of liquidation should be considered.'123 It also pointed out the need to further consolidate their operations and concentrate on building up a desirable credit portfolio. To reduce the influence of the politicians the committee recommended appointment of a non-official director.

The RRBs' financial performance came in the limelight in 1997-98 when RRBs as a group earned a profit of Rs.73 crore for the first time and improved the same further to Rs.430 crore and to Rs.600 crore during 1999-2000 and 2000-01. During 2000-01, as many as 170 RRBs earned profit of Rs.676 crore as against

only 32 RRBs earning profit of Rs.29 crore during 1994-95. On the other hand, the loss incurred by the loss incurring RRBs reduced from Rs.423 crore (164 RRBs) to Rs.75 crore (26 RRBs) during the same period. The viability based categorisation of RRBs as on 31 March 2001 showed that out of the 196 RRBs, 81 RRBs have wiped off their accumulated losses and in a way attained a sustainable viability whereas 89 other RRBs have achieved a turn around and attained a current viability status leaving only 26 RRBs which continued to incur losses.124

The total loans disbursed by RRBs have increased from Rs.1440 crore in 1993-94 to Rs.6978 crore in 1999-2000 and further to Rs.8783 crore in 2000-01. The growth of nominal credit flow of the RRBs was significantly higher at 23.03 per cent (15.71% real) during the 90s as compared to only 8.80 per cent (4.08 per cent real) during the 1980's. The total outstanding advances of RRBs stood at Rs.15815 crore as on 31 March 2001 as against Rs.5253 crore as on 31 March 1991. The NPAs of RRBs have also been declining in percentage terms and stood at 18 per cent as on 31 March 2001 as against 43 per cent as on 31 March 1996 when the norms were first made applicable to the RRBs.

2.8.2. The Working Group, 2002 (Chalapathy Rao Committee):

With a view to examine the various aspects of functioning of RRBs and to make recommendations for enabling these banks to take care of the financial needs of the rural populace and to suggest necessary amendments in the Regional Rural Banks Act, 1976, a Working Group (Chairman: Shri M.V.S. Chalapathy Rao) was set up by the Government in 2002. The Group observed that under the liberalized era with progressive deregulation of economic activities and new norms of financial prudence the operational environment of RRBs had undergone a massive change. The Group also observed that out of 196 RRBs 162 showed profits in 1999-2000, 55 of which had wiped out accumulated losses as well. RRBs have shown some signs of revival, but are still all too strongly tied to sponsor banks through deposits”125.

The Group submitted its report during August 2002, suggested amendments to several provisions of the Act. It favoured a total revamp of the RRB structure with the comment that “The present approach should not be there

124 Financial Statements of Regional Rural Banks, 2001, NABARD, Mumbai
125 Report of the Working Group(Chalapathi Rao Committee) on RRBs, 2002, GOI
any more. Commercial approach is necessary for their survival.” For the purpose of reviving the RRBs, it advocated Capital Adequacy Norms for RRBs as in the case of commercial banks, in a phased manner. The Committee remarked “RRBs should also start a broad base in their lending areas. The idea is that they enhance their gamut of services following a commercial approach”.¹²⁶

Major recommendations of the Working Group (2002) were:

- Widening the scope of financial services in the operation of RRBs.
- Introduction of Capital adequacy norms in RRBs in a phased manner along with RRB-specific amount of equity, based on their risk-weighted asset ratio.
- Differentiated categorisation of RRBs based on their financial health.
- Enhancement of the minimum level of shareholding by the sponsor banks to at least 51%.
- Extension of operational area of RRBs to cover all districts across the country.
- Amalgamation of RRBs with similar socio-economic zone, keeping their regional character to create one or a few RRBs in each State.
- Relaxations of regulatory framework for RRBs on the lines of commercial banks.
- Introduction of Half-yearly financial audit in the RRBs in order to identify the NPAs at early stage.
- Encouragement to diversify their business to fulfill the needs for all kinds of financial services of the rural economy so as to strengthen the financial health of the RRBs.
- Introduction of various IT based innovations in RRBs to improve the quality of customer services.

The committee has called for consolidation of RRBs to make them viable and profitable with two options:-

i) Merger of RRBs following the one sponsor bank approach or

ii) Amalgamation with their sponsor banks.

¹²⁶ ibid. GOI 2002.
In this context it is to be mentioned that the **Expert Committee (2001)** also recommended that the banks with profit or without any accumulated losses must adhere to a minimum CDR at 60%. If their CDR is less than 60%, they must improve it by 5% points annually.

In October 2004, RRBs have been allowed to undertake, with prior permission of the Reserve Bank, insurance business as corporate agents without risk participation, subject to fulfilling certain terms and conditions such as positive net worth, compliance with prudential norms, NPAs not exceeding 10 per cent, continuous profits in the last 3 years and no accumulated losses.

### 2.8.3. Internal Working Group on RRBs 2005

In order to reposition RRBs as an effective instrument of credit delivery in the Indian financial system, an Internal Working Group on RRBs was set up by the Reserve Bank in February 2005 (Chairman: Shri A.V. Sardesai) to examine various alternatives available within the existing legal framework for strengthening the RRBs and making them viable rural financial institutions. The Sardesai committee held that 'to improve the operational viability of RRBs and to take advantage of the economies of scale, the route of merger/amalgamation of RRBs may be considered taking into account the views of the various stakeholders'. Merger of RRBs with the sponsor bank is not provided in the RRB Act 1976. Mergers, even if allowed, would not be a desirable way of restructuring. The Committee was of the view that merging a RRB with its sponsor bank would go against the very spirit of setting up of RRBs as local entities and for providing credit primarily to weaker sections. The Committee, in its final report submitted in June 2005, made following major recommendations for restructuring the RRBs:

- To improve the operational viability of RRBs, the route of merger / amalgamation of RRBs may be considered along two lines:
  (i) merger between RRBs of the same sponsor bank in the same State; and
  (ii) merger of RRBs sponsored by different banks in the same State.
- A change in sponsor banks may, in some cases, help improve competitiveness, work culture and efficiency of concerned RRBs for which new banks, both public and private sector, could be considered.
• The merged entities and existing RRBs that have accumulated losses can be capitalised to wipe out the losses and satisfy minimum capital requirement. The CRAR may initially be kept at 5 per cent.

• For those RRBs which may not turn around within a specified time limit, say 3 to 5 years, an exit route may be considered subject to extant legal provisions.

• The process of appointment of Chairmen of RRBs may be re-examined to explore the possibility of appointing them from the open market through a transparent process.

• The Boards of RRBs may be strengthened by making them broad-based through inclusion of professionals such as agricultural experts, bankers, etc.

• An appropriate recruitment policy, providing for greater flexibility and freedom, may be required for RRBs.

• An appropriate incentive structure, career planning, relevant training, especially in skill upgradation and information technology, be evolved for employees of RRBs.

• It would be appropriate if both the regulatory and supervisory functions relating to RRBs are exercised by the Reserve Bank.

• RRBs may be encouraged to actively consider distribution of products of mutual fund/insurance companies, rationalisation of branch network, participate in consortium lending within their areas of operations.

• RRBs may be considered for currency chest facility and empowered to collect taxes by the State Governments.127

In pursuance of the above recommendations of the Internal Working Group, the sponsor banks are being encouraged to amalgamate the RRBs sponsored by them at the State level. The Government of India (Ministry of Finance), after consultation with NABARD, the concerned State Governments and the Sponsor banks, issued nine notifications on September 12, 2005 under Section 23-A of the Regional Rural Banks Act, 1976 providing for amalgamation of 28 RRBs into nine new RRBs sponsored by nine banks in six States, viz., Bihar, Gujarat, Karnataka, Maharashtra, Punjab and Uttar Pradesh. These amalgamations have become effective from September 12, 2005.

127 Report of the Internal Working Group on RRBs (2005), RBI (Chairman: Shri A V. Sardesai)
2.9. The Present Position:

2.9.1. Branch network of RRBs: Over the years, the RRBs, which are often viewed as the small man’s bank, have taken deep roots and have become a sort of inseparable part of the rural credit structure. They have played a key role in rural institutional financing in terms of geographical coverage, clientele outreach and business volume as also contribution to development of the rural economy. A remarkable feature of their performance over the past three decades has been the massive expansion of their retail network in rural areas. The growth of RRBs over the years and their performance in terms of selected indicators are presented in Table 2.2.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of RRBs</th>
<th>No. of branches</th>
<th>Deposits (Rs. Lakhs)</th>
<th>Average Dep. Per RRB (Rs. Lakhs)</th>
<th>Outstanding Loans+Adv. (Rs. Lakhs)</th>
<th>Outstanding Loans+Adv. Per Branch (Rs. Lakhs)</th>
<th>Outstanding Loans+Adv. Per RRB (Rs. Lakhs)</th>
<th>Credit Deposit Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>8</td>
<td>17</td>
<td>10</td>
<td>3.33</td>
<td>1.18</td>
<td>10</td>
<td>1.67</td>
<td>0.59</td>
</tr>
<tr>
<td>1976</td>
<td>40</td>
<td>489</td>
<td>84</td>
<td>772 *(376)</td>
<td>19.30</td>
<td>1.56</td>
<td>702</td>
<td>17.55</td>
</tr>
<tr>
<td>1977</td>
<td>48</td>
<td>1187</td>
<td>99</td>
<td>3304 (327.99)</td>
<td>68.83</td>
<td>2.78</td>
<td>4250</td>
<td>88.23</td>
</tr>
<tr>
<td>1978</td>
<td>51</td>
<td>1753</td>
<td>102</td>
<td>7411 (124.3)</td>
<td>145.31</td>
<td>4.23</td>
<td>12202</td>
<td>239.25</td>
</tr>
<tr>
<td>1979</td>
<td>60</td>
<td>2420</td>
<td>111</td>
<td>12322 (66.27)</td>
<td>205.37</td>
<td>5.09</td>
<td>16741</td>
<td>279.02</td>
</tr>
<tr>
<td>1980</td>
<td>85</td>
<td>3279</td>
<td>144</td>
<td>19983 (62.17)</td>
<td>235.09</td>
<td>6.09</td>
<td>24338</td>
<td>286.33</td>
</tr>
<tr>
<td>1981</td>
<td>107</td>
<td>4795</td>
<td>182</td>
<td>33600 (68.14)</td>
<td>314.02</td>
<td>7.01</td>
<td>40659</td>
<td>379.99</td>
</tr>
<tr>
<td>1982</td>
<td>124</td>
<td>6191</td>
<td>214</td>
<td>50226 (49.48)</td>
<td>405.06</td>
<td>8.11</td>
<td>57711</td>
<td>465.41</td>
</tr>
<tr>
<td>1983</td>
<td>150</td>
<td>7795</td>
<td>265</td>
<td>67785 (34.96)</td>
<td>415.90</td>
<td>8.70</td>
<td>75084</td>
<td>500.56</td>
</tr>
<tr>
<td>1984</td>
<td>173</td>
<td>10245</td>
<td>307</td>
<td>95997 (41.62)</td>
<td>554.90</td>
<td>9.37</td>
<td>108077</td>
<td>624.72</td>
</tr>
<tr>
<td>1985</td>
<td>188</td>
<td>12606</td>
<td>333</td>
<td>128582 (33.94)</td>
<td>683.95</td>
<td>10.20</td>
<td>140767</td>
<td>748.76</td>
</tr>
<tr>
<td>1986</td>
<td>194</td>
<td>12838</td>
<td>351</td>
<td>171494 (33.37)</td>
<td>833.99</td>
<td>13.36</td>
<td>178484</td>
<td>920.02</td>
</tr>
<tr>
<td>1987</td>
<td>196</td>
<td>13353</td>
<td>363</td>
<td>230582 (34.45)</td>
<td>1176.44</td>
<td>17.27</td>
<td>223226</td>
<td>1138.91</td>
</tr>
<tr>
<td>1988</td>
<td>196</td>
<td>13920</td>
<td>369</td>
<td>295558 (28.63)</td>
<td>1513.20</td>
<td>21.31</td>
<td>280429</td>
<td>1430.76</td>
</tr>
<tr>
<td>1989</td>
<td>196</td>
<td>14079</td>
<td>369</td>
<td>31858 (5.15)</td>
<td>1591.11</td>
<td>22.15</td>
<td>291825</td>
<td>1488.90</td>
</tr>
<tr>
<td>1990</td>
<td>196</td>
<td>14443</td>
<td>372</td>
<td>415052 (33.09)</td>
<td>2117.61</td>
<td>28.74</td>
<td>355404</td>
<td>1813.23</td>
</tr>
<tr>
<td>1991</td>
<td>196</td>
<td>14527</td>
<td>381</td>
<td>498924 (20.21)</td>
<td>2545.53</td>
<td>34.34</td>
<td>353535</td>
<td>1841.46</td>
</tr>
<tr>
<td>1992</td>
<td>196</td>
<td>14539</td>
<td>392</td>
<td>586783 (17.61)</td>
<td>2993.79</td>
<td>40.36</td>
<td>409086</td>
<td>2087.17</td>
</tr>
<tr>
<td>1993</td>
<td>196</td>
<td>14543</td>
<td>398</td>
<td>693814 (18.24)</td>
<td>3539.86</td>
<td>47.71</td>
<td>462673</td>
<td>2360.58</td>
</tr>
<tr>
<td>1994</td>
<td>196</td>
<td>14509</td>
<td>425</td>
<td>1115001 (26.32)</td>
<td>5688.78</td>
<td>76.85</td>
<td>629097</td>
<td>3209.67</td>
</tr>
<tr>
<td>1995</td>
<td>196</td>
<td>14497</td>
<td>427</td>
<td>1418790 (27.25)</td>
<td>7238.72</td>
<td>97.87</td>
<td>750503</td>
<td>3829.09</td>
</tr>
<tr>
<td>1996</td>
<td>196</td>
<td>14461</td>
<td>427</td>
<td>1797018 (26.66)</td>
<td>9200.01</td>
<td>124.69</td>
<td>871182</td>
<td>4448.00</td>
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<tr>
<td>1997</td>
<td>196</td>
<td>14475</td>
<td>451</td>
<td>2218923 (23.48)</td>
<td>11321.04</td>
<td>153.56</td>
<td>986081</td>
<td>5031.03</td>
</tr>
<tr>
<td>1998</td>
<td>196</td>
<td>14499</td>
<td>484</td>
<td>2706574 (21.98)</td>
<td>13809.05</td>
<td>186.67</td>
<td>1135584</td>
<td>5793.80</td>
</tr>
<tr>
<td>1999</td>
<td>196</td>
<td>14301</td>
<td>484</td>
<td>3220434 (18.99)</td>
<td>16430.79</td>
<td>225.19</td>
<td>1318595</td>
<td>6276.73</td>
</tr>
<tr>
<td>2000</td>
<td>196</td>
<td>14313</td>
<td>484</td>
<td>3827778 (18.85)</td>
<td>19525.48</td>
<td>267.47</td>
<td>1581489</td>
<td>8068.82</td>
</tr>
<tr>
<td>2001</td>
<td>196</td>
<td>14390</td>
<td>511</td>
<td>4453900 (16.36)</td>
<td>22723.98</td>
<td>309.51</td>
<td>1864090</td>
<td>9604.59</td>
</tr>
<tr>
<td>2002</td>
<td>196</td>
<td>14433</td>
<td>516</td>
<td>5009834 (12.48)</td>
<td>25560.38</td>
<td>347.11</td>
<td>2215785</td>
<td>11305.03</td>
</tr>
<tr>
<td>2003</td>
<td>196</td>
<td>14448</td>
<td>516</td>
<td>5635008 (12.48)</td>
<td>28750.04</td>
<td>390.02</td>
<td>2611386</td>
<td>13323.40</td>
</tr>
<tr>
<td>2004</td>
<td>196</td>
<td>14433</td>
<td>522</td>
<td>6142500 (9.01)</td>
<td>31339.29</td>
<td>424.09</td>
<td>3255900</td>
<td>16611.73</td>
</tr>
</tbody>
</table>

* Figures in parentheses indicate % growth over that of the previous year.

128 Debate in the XV Lok Sabha on Regional Rural Bank (Amendment Bill, 2004)
The table exhibits that from a modest beginning of 6 RRBs with 17 branches covering 12 districts in December 1975, the numbers have grown up to 196 RRBs with 14,433 branches working in 522 districts across the country in March 2005. The growth in the branch network has enabled the RRBs to expand banking activities in the unbanked areas and mobilise rural savings.

2.9.2. State and population wise distribution of RRBs in India

The state and population wise distribution of number of reporting offices and gross bank credit of RRBs presented in Table-2.3, shows that the RRBs are now not only confined in rural areas, but they are functioning in urban/metropolitan areas also (450 branches).

The rural orientation of RRBs can clearly be seen from the fact that out of total 14433 branches, 11816 (81.87%) are in rural areas and 2167 (15.1%) are in semi urban areas. The rural and semi-urban branches together constitute 97% of the total branch network of RRBs.

However there is a concentration of RRBs in the Central Region (Chhattisgarh, Madhya Pradesh, Uttar Pradesh and Uttarakhand) comprising 31.10% of the total RRB branches, followed by the eastern region with 27.76%. On the contrary, the N.E region has the lowest share at 4.5% of the total RRB branches of the country.

2.9.3. Mobilisation of Deposits and Disbursement of Credit:

Along with the increase in the number of RRB branches, their volume of business in terms of deposits mobilisation as well as disbursement of credit has also increased over the years. It can be seen from the Table-2.2 that the bank had started with a volume of deposits of Rs.20 lakh with an average of 1.18 lakh per branch in 1975 which increased to Rs.336 crore in 1981 with Rs.7.01 lakh as per branch deposits. It further jumped up to Rs.4989.24 crore (Rs.34.34 lakh per branch) in 1990-91. In 2000-01 the total volume of deposits mobilised was Rs.38277.78 crore (Rs. 267.47 lakh per branch) which was amplified to Rs.61425 crore (Rs. 424.09 lakh per branch) in 2004-05.

The volume of credit disbursed by these bank branches was Rs.10 lakh in total (on average Rs.0.59 lakh per branch) in 1975. With the passage of time the volume of credit disbursement went on increasing and reached to Rs.406.59 crore
(Rs. 8.48 lakh per branch) in 1981 and further to Rs.3535.35 crore (Rs. 24.85 per branch) in 1990-91. The total amount of outstanding credit in 2000-01 was Rs.15814.89 crore with an average of Rs.110.51 lakh per branch (about 4 times higher than that of 1990-91) and further escalated to Rs.32559 crore (Rs.224.79 lakh per branch) in 2004-05. These clearly depict the increasing role of RRBs in mobilising deposits in rural areas and disbursement of credit, over the years.

Table - 2.3
State and Population wise Distribution of Number of Reporting Offices and Gross Bank Credit of Regional Rural Banks as on March 2005 (Amount in Rs. Crore)

<table>
<thead>
<tr>
<th>Region/State/Union Territories</th>
<th>Rural</th>
<th>Semi-urban</th>
<th>Urban/Metropolitan</th>
<th>Total</th>
<th>C.D Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Offices</td>
<td>Deposits</td>
<td>Credit</td>
<td>Offices</td>
<td>Deposits</td>
</tr>
<tr>
<td><strong>Northern Region</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Haryana</td>
<td>140</td>
<td>19</td>
<td>15</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td>877</td>
<td>257</td>
<td>118</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Jammu and Kashmir</td>
<td>201</td>
<td>38</td>
<td>13</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Punjab</td>
<td>215</td>
<td>14</td>
<td>19</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>215</td>
<td>14</td>
<td>19</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Chattisgarh</td>
<td>526</td>
<td>799</td>
<td>299</td>
<td>31</td>
<td>426</td>
</tr>
<tr>
<td>Arunachal Pradesh</td>
<td>1638</td>
<td>219</td>
<td>156</td>
<td>52</td>
<td>575</td>
</tr>
<tr>
<td><strong>Eastern Region</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bihar</td>
<td>1245</td>
<td>137</td>
<td>1237</td>
<td>89</td>
<td>830</td>
</tr>
<tr>
<td>Jharkhand</td>
<td>345</td>
<td>39</td>
<td>325</td>
<td>19</td>
<td>178</td>
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<tr>
<td>Orissa</td>
<td>748</td>
<td>670</td>
<td>372</td>
<td>19</td>
<td>178</td>
</tr>
<tr>
<td>Sikkim</td>
<td>750</td>
<td>608</td>
<td>288</td>
<td>26</td>
<td>295</td>
</tr>
<tr>
<td><strong>Western Region</strong></td>
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<td>308</td>
<td>259</td>
<td>229</td>
<td>23</td>
<td>196</td>
</tr>
<tr>
<td>Gujarat</td>
<td>204</td>
<td>164</td>
<td>39</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>425</td>
<td>329</td>
<td>106</td>
<td>20</td>
<td>198</td>
</tr>
<tr>
<td>Madhyapradesh</td>
<td>250</td>
<td>184</td>
<td>66</td>
<td>17</td>
<td>195</td>
</tr>
<tr>
<td><strong>Southern Region</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>883</td>
<td>1560</td>
<td>978</td>
<td>60</td>
<td>782</td>
</tr>
<tr>
<td>Karnataka</td>
<td>878</td>
<td>1219</td>
<td>813</td>
<td>55</td>
<td>569</td>
</tr>
<tr>
<td>Kerala</td>
<td>71</td>
<td>121</td>
<td>56</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>150</td>
<td>280</td>
<td>90</td>
<td>5</td>
<td>65</td>
</tr>
<tr>
<td><strong>All India</strong></td>
<td>11816</td>
<td>22857</td>
<td>15027</td>
<td>1507</td>
<td>5378</td>
</tr>
</tbody>
</table>

Source: Trends and Progress of Banking in India, RBI, March, 2005
(Figures in parentheses represent % to the total)
However, the disbursement of credit did not increase proportionately with the volume of deposits mobilisation. This is evidenced by the declining credit-deposit Ratio, particularly, after 1984. During the period 1977 to 1986, the credit-deposit ratio for the RRBs as a whole was more than 100%, i.e. the banks had been granting loans and advances to the rural clientele more than what they had been mobilising from them in the form of deposits. But, the scenario had reversed in 1987 with a decline in C.D. Ratio to 96.81%. Thereafter the declining trend continued and the ratio came down to below 50% in 1996-97 (the year of implementation of Prudential Norms in RRBs) and further to around 40% in 1999-00. However, the ratio has shown a sign of revival in recent years and in 2004-05, the ratio increased to 53.01%. This clearly reflects the reverse flow of funds from rural areas to urban areas or metropolitan cities for investment in corporate sector. Thus, the improvement in profitability and viability, if any, in the RRBs during the post reform period is largely by distancing the poor clientele from their much needed credit and by siphoning off funds from agriculture to industrial sector.

From Table-2.3, it can be observed that the Credit Deposit ratio of the RRBs vary widely from region to region / state to state. While, in the southern region the C-D Ratio is on average at 91.48%; the same in the North Eastern Region found to be at the lowest level (41.32%), followed by the central region at 41.62%. The state wise comparison of C.D ratio reflects a wide variation within a range of 103% (Kerala) and 21.65% (Jammu and Kashmir). The ratio for Assam (44.63%) is found to be the lowest and far below the national average (53.01%). The state / region wise wide variation in the C. D. Ratio not only depicts the differences in business strategies of different RRBs of the country but at the same time demonstrates the regional inequalities in the flow of credit supplied by RRBs of different regions of the country also. This is one of the important factors behind the wide regional differences in the levels of economic development, particularly of the rural economies, which in turn adversely affects the business opportunities of RRBs in different regions of the country.

2.9.4. The NPA Menace:

Management of NPAs continues to be the foremost challenge of the Indian banking system after the reform of 1991. The problem of low profitability in RRBs and higher level of NPAs in their portfolios emerged as a burning problem.
The Narasimham Committee coined a new definition of NPAs in conformity with international practice. From 1991-92, the commercial banks had to classify their advances into four groups such as (i) standard assets; (ii) sub-standard assets; (iii) doubtful assets and (iv) loss assets, and indicated that the advances classified under the last three groups were to be considered as NPAs.

Apart from providing a more realistic picture of their loan portfolio, the application of the asset classification norms forced the RRBs to place greater emphasis on loan appraisal systems and many RRBs slowed down their disbursements to allow for better systems to be introduced and for these systems to stabilize.

However, until 1995-96, the RRBs did not undertake any provisioning for potential loan losses. In 1995-96, the RBI formulated asset classification norms for RRBs that followed customary banking benchmarks. The NPAs in RRBs were first assessed in 1996 when the prudential norms were introduced to RRBs. As a result, the RRBs took a hard hit during the financial year 1996-7, when these norms were first introduced. The first assessment of NPAs in 1996 revealed that the NPAs of RRBs for the country as a whole was as high as 43 per cent of their gross loans and advances outstanding.

The level of NPAs although has declined to 23.13% as on 31 March 2000 and further to 12.63% on 31st March 2005, it is still considered as very high. In absolute terms, the NPAs of RRBS stood at Rs.3,299 crore as on March 31, 2005. Out of 196 RRBs in the country, 103 RRBs had gross NPAs less than the national average and the rest 93 had NPAs more than it.

In the recent past there has been a conscious and persistent effort through the prescription of strict objective norms for the identification and classification of NPAs. This was also supplemented by the sustained efforts both by the Government and the RBI for setting up the requisite infrastructure and the systems / procedures for recoveries / reduction of NPAs.

In addition, the RRBs have been advised to strengthen their credit administration machinery and put in place effective credit risk management.

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129 Misra, B S The Performance of RRBs in India, RBI Occasional Papers, Vol 27, No 1 and 2 Summer and Monsoon, 2006
systems to reduce the fresh incidence of NPAs\textsuperscript{130}. The Reserve Bank of India has introduced the 90 days delinquency norm for identification of NPAs with effect from the year ending March 2004, and reduced the timeframe for classification of a sub-standard asset as a doubtful asset from 18 months to 12 months with effect from the year ending March 2005. But, the legal infrastructure of the country has not yet been developed to solve the problem of the low recovery rate which is one of the important factors leading to high NPAs.

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>State</th>
<th>No. of RRBs</th>
<th>Profit making</th>
<th></th>
<th></th>
<th></th>
<th>NPA (Rs. Lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Without accumulated loss</td>
<td>With accumulated loss</td>
<td></td>
<td>Recovery rate (%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>No.</td>
<td>Amount</td>
<td>No.</td>
<td>Amount</td>
<td></td>
</tr>
<tr>
<td>1</td>
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<td>16</td>
<td>13</td>
<td>10717.55</td>
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<td>1435.48</td>
<td>1 336.44</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>1 217.83</td>
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<tr>
<td>3</td>
<td>Assam</td>
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<td>-</td>
<td>1473.37</td>
<td>5</td>
<td>1773.14</td>
<td>-</td>
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<td>-</td>
<td>5</td>
<td>-</td>
<td>1 1303.74</td>
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<tr>
<td>6</td>
<td>Gujar</td>
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<td>2457.53</td>
<td>2</td>
<td>378.97</td>
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<td>7</td>
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<td>3</td>
<td>4433.2</td>
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<td>1303.74</td>
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<tr>
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<td>9</td>
<td>Jammu &amp; Kashmir</td>
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<td>1198.63</td>
<td>-</td>
<td>-</td>
<td>2 1084.51</td>
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<tr>
<td>10</td>
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<td>6</td>
<td>2</td>
<td>10447.36</td>
<td>-</td>
<td>-</td>
<td>3 1161.06</td>
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<td>13</td>
<td>10447.36</td>
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<tr>
<td>12</td>
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<td>3833.12</td>
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<td>1136.15</td>
<td>9</td>
<td>2447.53</td>
<td>5 1819.35</td>
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<td>14</td>
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<td>752.25</td>
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<td>883.93</td>
<td>1 170.45</td>
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<td>-</td>
<td>-</td>
<td>1</td>
<td>38.73</td>
<td>-</td>
</tr>
<tr>
<td>18</td>
<td>Nagaland</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1 41.03</td>
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<tr>
<td>19</td>
<td>Orissa</td>
<td>9</td>
<td>2</td>
<td>1383.52</td>
<td>3</td>
<td>230.09</td>
<td>4 2811.6</td>
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<td>5</td>
<td>3973.01</td>
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<td>Rajasthan</td>
<td>14</td>
<td>5</td>
<td>3956.86</td>
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<td>740.13</td>
<td>2 704.69</td>
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<tr>
<td>22</td>
<td>Tamilnadu</td>
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<tr>
<td>23</td>
<td>Tripura</td>
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<td>-</td>
<td>1</td>
<td>642.58</td>
<td>-</td>
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<tr>
<td>24</td>
<td>Uttar Pradesh</td>
<td>36</td>
<td>27</td>
<td>26509.77</td>
<td>8</td>
<td>3016.84</td>
<td>1 148.84</td>
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<tr>
<td>25</td>
<td>Uttarakhand</td>
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<td>3</td>
<td>744.51</td>
<td>-</td>
<td>-</td>
<td>1 98.12</td>
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<tr>
<td>26</td>
<td>West Bengal</td>
<td>9</td>
<td>2</td>
<td>592.05</td>
<td>6</td>
<td>1174.95</td>
<td>1 1062.58</td>
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<tr>
<td>All India</td>
<td></td>
<td>190</td>
<td>106</td>
<td>79503.22</td>
<td>57</td>
<td>15729.67</td>
<td>33 18364.66</td>
</tr>
</tbody>
</table>

Source: Statistics on RRBs as on 31\textsuperscript{st} March 2005. NABARD, 2006.

Figures in parentheses represents (%)
The state wise NPA position and recovery performance (Table-2.4) clearly depicts that the Npa% in the states like Punjab (4.77%), Haryana (5.39%), Himachal Pradesh (7.41%), Kerala (7.53%) Rasasthan (8.38%) and Tamilnadu (4.21%) are quite low because of the higher recovery rate (above 80%). On the other hand, in the states like Bihar (18.86%), Chhattisgarh (14.83%), Jharkhand (24.40), Madhya Pradesh (13.47%), Orrissa (13.97%), Uttar Pradesh (16.72%), West Bengal (14.57%) and all the North-Eastern States; the NPA% is higher than the national average (12.63%) because of the poor recovery rates.

This demonstrates inter regional variation in the loan appraisal system and in the efficiency of the RRBs in their loan recovery performances. However, a great deal of such variation is due to the scope of income generation out of the bank loans, which is mainly affected by the regional economic conditions, scope of investments, infrastructural facilities available to the borrowers etc.

2.9.5. State wise viability position of RRBs:

The state wise viability position of RRBs is portrayed in Table-2.4. The table shows that as on 31st March, 2004, out of 196 RRBs, 163 were earning profits and only 33 were incurring losses. Out of 163 profit making RRBs, 106 have become successful to wipe out their accumulated losses and 57 are yet to cover up their accumulated losses.

Among the loss making RRBs, the largest number are in the state of Bihar (9 out of 16) followed by Madhya Pradesh (5 out of 19) and Orissa (4 out of 9). However, in case of Assam, though all the RRBs are profit making, but none of them have yet become free from their accumulated losses. The volume of accumulated losses carried over by the 5 RRBs of the state is Rs.1473.37 lakh (as on 31st March 2004).

2.9.6. Steps undertaken to improve viability of RRBs:

In order to make the RRBs viable, as well as to enable them to face market competition, the banking sector reform measures have been implemented in RRBs in 1994-95 and the prudential norms of income recognition and asset classification and provisioning were introduced in 1996-97. A total amount of Rs.2188 crore was provided to 187 RRBs during the period 1994-2000 to cleanse their balance sheets.
With the implementation of banking sector reforms, the RRBs are freed from their target group obligations and allowed to lend to the non-target group of borrowers and even to the borrowers beyond their service area. Along with the other scheduled commercial banks, the RRBs are also provided freedom to fix the rate of interest on deposits and credit within the limit prescribed by the RBI. Besides these, the RRBs have been permitted to do all types of banking business at par with those of the scheduled commercial banks. In order to increase the volume of their business they were allowed to shift the loss making branches to more vibrant locations in semi-urban or urban areas.

The argument of high NPAs has been used by the RRBs (and other public sector banks) to cut down lending to the priority sector. Since 1991, there has been a reversal of the trends in the ratio of directed credit to total bank credit and the proportion thereof going to the agricultural sector. In 1991, 40.9 per cent of net bank credit was advanced to priority sectors, and total credit to agriculture, remained below the prescribed level of 18% (it came down to 16.4% in 1991 and further to 15.3% in 2002).\footnote{Misra, B.S. (2006) Ibid.}

At the same time, serious attempts have been made in recent years to dilute the norms of priority sector lending. The redefined priority sector now consists of small and marginal farmers, the tiny sector of industry, small business and transport operators, village and cottage industries, rural artisans, and other weaker sections. Credit targets for this redefined priority sector have been fixed at 40 per cent of aggregate bank credit. Thus, while the authorities have allowed the target for priority sector lending to remain untouched, they have widened its coverage. In agriculture, both direct and indirect advances to agriculture were clubbed together for meeting the agricultural sub-target of 18 per cent in 1993, subject to the stipulation that "indirect" lending to agriculture must not exceed one-fourth of that lending sub-target or 4.5 per cent of net bank credit.

Apart from this, there were also totally new areas under the umbrella of priority sector lending in the form of Rural Infrastructural Development Fund (RIDF). The banks defaulting in meeting the priority sector sub-target of 18 per cent of net credit to agriculture now would cover up the deficiency by contributing to the RIDF of NABARD. They could also make investments in special bonds...
issued by institutions like State Financial Corporations and treat such investments as priority sector advances. The changes made in the policy guidelines on the subject of priority sector lending were obviously meant to enable the RRBs (and other nationalised banks also) to move away from the responsibility of direct lending to the priority sectors of the economy. Priority sector lending as a proportion of net bank credit, after reaching the target of 40 per cent in 1991, had been continuously falling short of target till 1996. However, it has subsequently been in excess of the target because of their contribution towards the RIDF and stood at 43 per cent in 2001.

Further, after the deregulation of interest rates in 1996, the RRBs which are meant to provide 'low cost banking facilities to the poor', maintained the highest interest rate structure on loans among rural institutional credit sources. For instance, RRBs in January, 2005 were attracting about 11-12 percent rate of interest for the non-priority sector lending, while the sponsor banks were charging an interest rate of an average 8 percent.132

In order to reduce costs and improve the profitability, the RRBs were restricting credit advances, particularly advances to the target group borrowers, and instead investing in risk-free government and other approved securities. Investment-deposit ratio of the RRBs steadily climbed up from very low levels, whereas the C.D. Ratio of the RRBs declined sharply. In fact, C.D. Ratio of the RRBs, which in 1990 stood at more than 80 percent compared to 65 percent for the scheduled commercial banks, fell to 44 percent by the year 2002-03. This was even lower than the credit-deposit ratio of 49 percent recorded for the scheduled commercial banks in the corresponding year. The Estimates Committee, 2002-03 viewed that the credit-deposit ratio of RRBs declined steadily at a rate of 3-4 % per annum from 1992 to 1999.

The latest trend in the move to make the RRBs viable is to merge or amalgamate the RRBs operating in a state under the common sponsor bank with a view to enhance their capital base, expand their area of operation and bring them under unified control. But this is a step just to screen the losses incurred by some RRBs behind the profit made by some others and keep the balance sheet out of red.

2.9.7. The Paradigm Shift in Approaches:

The RRBs are now at par with the scheduled commercial banks in respect of priority sector lending, investment avenues, credit discipline and transparency. At present the RRBs, in line with the commercial banks, are also focusing their attention on the attainment of sustainable viability, improved customer services, new and innovative loan products and diversified business portfolio.

Thus we observe that the liberalization of the economy and financial sector reform has brought a radical change in the operational policies, objectives and approaches of RRBs as summarised in Table -2.5.

The facts tabulated above clearly exhibit that the RRBs have reoriented themselves (or rather forced to reorient) with the changing policy environment of the country. Thus, we can safely invalidate our hypothesis $H_0^1$ and conclude that there has been a paradigm shift in the operational policies and objectives of the RRBs of the country with the changing socioeconomic scenario, over time'.

The above findings and rejection of our first hypothesis dictated us to undertake a critical analysis of financial performance of the RRB under study during the post reform era to assess the impact of the above paradigm shifts in policies and approaches on its business performances. This has been done in the next chapter.

Table 2.5
Paradigm Shift in Approaches of RRBs
(After implementation of banking sector reform measures)

<table>
<thead>
<tr>
<th>SI. No</th>
<th>Issue</th>
<th>Earlier Approaches</th>
<th>Present Approaches</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Viability</td>
<td>Not a matter of concern so long as the broad purpose of purveying credit for the weaker section is achieved</td>
<td>A must for survival under competitive market conditions.</td>
</tr>
<tr>
<td>2</td>
<td>Profitability</td>
<td>Not an area of any major concern</td>
<td>Must for attaining viability</td>
</tr>
<tr>
<td>3</td>
<td>Business</td>
<td>Whatever comes in the ordinary course of operation- no special effort is needed</td>
<td>Expansion of business is a must for profitability. Looking outside the bank's premises has become necessary for business growth.</td>
</tr>
<tr>
<td>4</td>
<td>Product diversification</td>
<td>Traditional banking products are enough.</td>
<td>Product diversification according to the needs and suitability of the customers is required.</td>
</tr>
<tr>
<td>5</td>
<td>Competition</td>
<td>Does not exist</td>
<td>Keen competition unavoidable in an era of open market in the wake of liberalization</td>
</tr>
<tr>
<td>6</td>
<td>Efficiency</td>
<td>Not a matter of concern as there is directed lending with administered interest rates and social welfare as the fundamental motive.</td>
<td>Must in the environment of competition</td>
</tr>
<tr>
<td>7</td>
<td>Relevance to the nation</td>
<td>Automatic Depends on the performance, whatever it may be.</td>
<td>Will not be relevant if the obligations are not fulfilled.</td>
</tr>
<tr>
<td>8</td>
<td>Professionalism</td>
<td>No professionalism needed to serve the rural clientele.</td>
<td>Professionalism is a must in the context of the survival of the fittest.</td>
</tr>
<tr>
<td>9</td>
<td>Customer</td>
<td>One who needs the bank</td>
<td>One whom the bank needs</td>
</tr>
<tr>
<td>10</td>
<td>Training</td>
<td>A mere routine work.</td>
<td>A necessity for gaining efficiency and skill</td>
</tr>
</tbody>
</table>