CHAPTER THREE
A SURVEY OF THE REPORTS ON THE WORKING OF THE RRBs IN INDIA
CHAPTER III

A SURVEY OF THE REPORTS REGARDING THE WORKING
OF THE RRBs IN INDIA

3.1 Introduction :

In the present chapter an attempt is made to present
the highlights of a fairly critical review of the reports of the
committees. appointed from time to time, to reexamine the various
facets of the working of the RRBs and make suggestions for re-
vamping the same. There have been five such committees till now
which are of much relevance to changes in structural and policy
orientation of the institutional RRBs since the inception. Appar-
ently, all is not well with the credit delivery system of this
institution by itself, and, or, it is called upon to change its
direction and dimension of operations to strengthen the much
ailing rural credit as a whole. The very need to set up so many
review committees in succession, with such short frequency in
about a decade and half could mean many things. Anyway, the
perceptions and prescriptions of these expert bodies may shed
much light on the relevant aspects.

Chronologically, the five reports of the expert commit-
tees that come under the purview of this chapter are as follows :

1977

3.2 Report Of The Review Committee (1977) :

Since the establishment of the RRB, the first committee to review the working of the same was appointed by the RBI, in June 1977, under the RRB Act of 1976. It was a four-man committee, under the chairmanship of the eminent economist, Prof. M. L. Dantwala, with the following terms of reference :-

   <a> To evaluate the performance of the Regional Rural Banks in the light of the objectives for which they were set up.
   <b> To indicate their precise role in the rural credit structure. and
   <c> To make recommendations with regard to the scope, methods and procedures of their functioning and other matters germane to the enquiry.

The methodology adopted by the committee included eliciting the views of the concerned individuals in the government and institutions connected with banking and rural finance, experience of commercial banks sponsoring the RRBs and field studies to evaluate working of some RRBs. The RRBs selected for
field studies across the country have covered, two each in Bihar and the U.P., and one each in the A.P., Haryana, Karnataka, Kerala, the M.P., Orissa, Rajasthan and West Bengal.

The report proceeds with a brief resume 'of the Scheme of the RRBs in its Chapter 2. It gives genesis and rationale' of the schemes as conceived by the Working Group on Rural Banks, the principal features of the Scheme and the RRB Act of 1976 covering jurisdiction, sponsorship, capital structure, management structure, the nature of banking business, steering committee and training facilities.

It is in its Chapter 3, that the report takes up the aspects of the existing rural credit channels and credit gap in the rural sector. This is being done to more firmly establish the major premise of the Working Group claiming the inability of the existing institutional channels to fulfill the varied and growing needs for rural credit. Based on the available data on the achievements or rural credit institutions during the preceding few years and the credit requirements as estimated by National Commission on Agriculture (NCA) the report estimated leeway of about Rs. 1000 crore in medium and long term loans by 1979.

Significantly enough, the Review Committee holds the view that the concept of credit gap has to be more comprehensive and disaggregated and the deficiencies of the credit stream

1. Regional Rural Banks, "Report Of The Review Committee", (Dantwala Committee), Reserve Bank Of India, Bombay, 1977. P. 1 and 2.
should not be judged only on the basis of quantum of credit supplied and the gap between the aggregate supply and demand for credit. In this regard, the Review Committee makes a valuable contribution in posing the questions that are relevant for assessing the credit gap. These are reproduced here as below:

(i) To what extent do the credit institutions meet the needs of different sections of rural borrowers - particularly small and marginal farmers, rural artisans, petty traders, etc.?  

(ii) Do they meet different types of credit needs of borrowers - short, medium and long term, production, marketing processing and in the case of weaker sections consumption needs?  

(iii) Are their loaning operations versatile enough to progressively wean away the potential borrowers from the money-lender and traders?  

It may be accepted that the inhibiting factors in this task may be beyond the control of credit agencies. A credit system can not be wholly equituous if the structure of the rural economy is itself inequitous, nor can credit alone transform a basically inequitous economic structures into an equitous one.

(iv) All the above questions should be examined not aggregatively but for each state, ideally for each district.

2. Ibid. P. 9 and 10.
The Review Committee proceeds to evaluate the performance of the different credit agencies and some of the innovative agencies in the light of the criteria enunciated above. Beginning with the co-operative credit institutions at the state level and, based on such data as are available, the following major observations made in the report are worth mentioning.

The benefit of the increased credit disbursement is restricted to a small number of active borrowers and is not shared by all. Though credit can stimulate agricultural development, it can not move faster than growth in agriculture for the obvious reason. There exist considerable differences among the states in India with regard to the performance of the Primary agricultural credit societies (PACS). Based on several criteria, the states of Assam, Bihar, H.P., M.P., Orissa and West Bengal rank low, requiring special attention. The class bias against the small and marginal farmers is not very pronounced but, at the same time, a stipulated percentage of total credit for weaker sections under an obligation might ensure a somewhat equitable distribution. The share of the institutional agencies is rather very low in the cash debt outstandings of farm labourers and rural artisans.

With regard to the innovative concept of the single window delivery system resulting in Farmer's Service Societies (FSS), the report bemoans that, the progress achieved is far form satisfactory for a variety of reasons. Most of the FSS could not adhere to the stipulation that above two-third of the elected
members of the Board Of Directors should represent the weaker sections. Similar is the case with regard to the technical staff required for providing full package of services and technical guidance to the members. In many a case the loan business is found to be much below the phased target. A large number of these societies had not issued term loans and even more to consumption loans. In several other respects, such as catering to weaker sections and overdues position, the FSS have provided much worse than the PACS. An overwhelming proportion of the FSS had not undertaken the marketing of the agricultural produce of their members.

The Review Committee makes some pertinent observations on the state of affairs in respect of the District Central Cooperative Banks (DCCB). The progress made in respect of rehabilitation of weak DCCBs is quite discouraging. On the contrary, 'the number of such banks is swelling year after year. It rose from 51 in 1971 to 174 in 1975, constituting 53 percent of the total DCCBs in the country. The main reasons for tardy progress in rehabilitation are: - lack of seriousness, ineffective monitoring by the district level committees and non-compliance of prescribed formalities. The Review Committee is of the opinion that it would be unrealistic to expect any speedy improvement in the working of the DCCBs. Acceptance of this view would mean thinking of some alternative to the weak DCCBs for keeping open the channels of credit flows to the PACS. The scheme of financing of PACS by commercial banks to the limited extent has also not been proved successful.
Turning their attention to the role of the commercial banks in purveying rural credit, the Review Committee notes that since the adoption of multi-agency approach in 1970, the extension of branch network to rural areas has been commendable. The deployment of the bank funds to priority / neglected sectors registered a considerable increase from 14 percent in 1969 to 26.1 percent of total bank credit in 1977. However, it is also noted that the distribution of short-term finance to agriculture by commercial banks is very uneven. Moreover, compared to the PACS, the commercial banks are apparently better equipped to provide term finance to agriculture. Besides the share of medium and large farmers in respect to term loans of commercial banks is quite large. The bias of loaning operation in favor of large farmers is more pronounced in Gujarat, Maharashtra, Madhya Pradesh and Punjab.

Receiving the attention of the Review Committee is the novel experiment, involving the commercial banks in adopting and funding the PACS in some of the areas, where co-operative credit structure was financially and operationally weak. The scheme was first introduced by the RBI in 1970 in five states and later on extended to six more states. By the end of 1976, 3,453 primary societies were being financed by various commercial banks. Based on the results of a survey conducted by the RBI, the report of the Review Committee mentions that despite some progress in the quantum of funds made available by the commercial banks to the adopted PACS, the scheme had faced several shortcomings. These
are:- high incidence of overdues. (about 32 percent of the
societies could not get fresh finance), low percentage of bor-
rowing members (42 percent) persistence of operational defi-
ciencies, low volume of term loans, inadequate financing of small
farmers etc.

Furthermore the Review Committee addresses itself the
vital question whether the commercial banks' credit has helped to
fill the credit gap left by the rural cooperatives or has it
ended up as additional finance in the same areas served well by
the co-operatives? Three criteria based on (a) per hector issued
( agricultural ) credit (b) per hector agricultural credit out-
standing and (c) agricultural credit per rural household as on
June 30, 1976 were employed. The states are ranked accordingly,
under the commercial banks and the cooperatives. Under all the
criteria, the same states figure in both the bank and cooperative
lists as the top eight states. The sum and substance of the rank-
ing is that, the states most neglected both by the cooperatives
and the commercial banks are Assam, J. and K., Orissa and Rajas-
than. Moreover, the commercial banks agricultural credit has been
additive and has not helped to fill the spatial gap in the avail-
ability of credit not covered by the cooperatives. The lesson to
be drawn is that mere establishment of additional credit agencies
is not the answer to the problem of deficient rural credit sys-
tem. The regional disparities in the availability of credit can
be reduced if the action is taken to stimulate demand for credit
in lagging regions. And this can come about only by stimulating
broad-based development in three regions.
In the last section of the chapter, the Review Committee makes a bleak reference to, by now too familiar the aspect, of mounting overdue situation faced by all the institutional credit agencies. This section draws attention to the findings of the Study Team on overdues of the Cooperative Credit Institutions, which has made an exhaustive analysis of the causes of overdues. The experience has revealed that an arbitrary quota of credit and undue pressure on credit institutions may prove self-defeating as the excessive overdues ultimately choke the credit flow.

Having reviewed at length the existing credit rural channels and credit gap in the rural sector the Review Committee proceeds with the Review of overall progress of the RRBs in Chapter 4 of its report. The brief review covers the bare facts as existing prior to the appointment of the committee. It provides information on datewise establishment of the RRBs in different states, the bank sponsoring the same, jurisdiction of area and population covered upto the end of June 1977. In this brief chapter, are also mentioned branch expansion, deposit mobilisation, loan operations organisation, personnel and staff training. One significant point worth noting is that the credit-deposit ratio of the RRBs at an average of 125 percent was highly favorable compared to 52 percent of the rural branches of the commercial banks.

It is in its chapter 5 that the assessment of the overall performance of the RRBs is made with reference to the objectives for which they were established. The highlights of the assessment incorporating important conclusions as made in the report are noted below.

In regard to the suitability of location, as per the guidelines of the steering committee, the report observes that, while by and large the choice of districts for setting up the RRBs was appropriate, the justification for the RRBs in a few districts was not particularly strong. The performance of the RRBs in opening the branches has been satisfactory, in that each bank has opened around 20 branches within a short period of less than 18 months. This is strictly below the norms expected, but in the face of numerous teething troubles, this may not be considered as a serious omission. The opening of branches at unbanked centers by the RRBs was also generally impressive, as 55.3 percent of branches were located at hitherto unbanked places.

The performance in respect of deposit mobilisation, the surveyed RRBs had mobilised sizable amount, at an average of Rs. 57 lakhs per bank. Interestingly enough, over one-third of these deposits were mobilised from the branches at the unbanked centers. However, the two major constraints in the case of deposit mobilisation are (a) exclusion of other than small farmers from loan facilities, which holds back the relatively better off potential depositors and (b) the state governments preference for keeping their institutional deposits with the cooperatives.
In the matter of loan business, the operations indicated a mixed pattern, with varied relative importance of the prescribed credit facilities. The RRBs were relatively more enthusiastic in offering term credit for agriculture. Perhaps, it may be for reasons of quicker attainment of higher loan targets, facility of identification of purpose and easier supervision over loan utilisation.

In the light of one of the more important objectives being the effective coverage of small and marginal farmers, landless labourers, rural artisans, etc. viz. weaker sections, the performance of the RRBs does not appear satisfactory. The reasons offered for this state of affairs are the very short period of hardly one and a half years of working and the deliberate choice of location resulting in large proportion of weaker sections within their operational areas. Moreover there are obvious practical limitations to, larger direct lending to the weaker sections. Wherever the PACS/FSS have been ceded to the RRBs the magnitude of lending is larger. The linking of the cooperatives with the RRBs becomes important for them to retain their image of small man's bank. They will have to be actively assisted by the development agencies of the government.

In regard to recovery performance, it is to be noted that the assessment is based on the data available with just one year of functioning. Apparently, it is quite encouraging as overdues to demand formed only 15.7 of the surveyed banks taken
together. The overdues position compares favorably with the scheduled commercial banks. (48 percent as in June 1976). The position was better in respect of crop loans at 10.3 percent as against 21 percent for agricultural term loans and 20 percent for loans to rural artisans.

In respect of this quality of lending the RRBs are apparently making conscious efforts to reach their clientele, as they are equipped with field staff, unlike the branches of the commercial banks, for canvassing purposes. Generally they appear to have had better rapport with villages owing to their rural orientation and better liaison with extension agencies. The loan application forms, besides being printed in local language are found to be brief and generally simpler than those of the commercial banks. Moreover, some RRB staff help borrowers in securing relevant documents required for processing loan applications. Though based on limited data, it is recorded that the RRBs consume lesser time-lag for the sanction of loans as compared to the rural branches of the commercial banks.

As regards the adequacy of the loan amount, that is, the proportion of the loan amount sanctioned to that applied for, there is no significant variation between the RRBs and the commercial banks operating in rural areas.
However, it is in the matter of rates of interest charged on their loans that the RRBs are found unfavorably compared with the commercial banks. The bank meant the for weaker sections has a schedule of higher interest rates whereas, the commercial banks, generally catering to the relatively better off sections, charged lesser interest rates for the comparable types of loans. It is the stipulation that the RRBs interest rates must be on par with those of the cooperatives that has given rise to this situation of anomaly. Confounding this matter further is the fact that the commercial banks are allowed to finance the weaker sections under the Differential Rate of Interest (DRI) Scheme at four percent interest rate. It could mean that a number of the RRB clientele which was almost comparable to the eligible members under the DRI scheme, was financed by the RRBs at a higher rate of interest.

What has been said so far may well be summed up in the Review Committee's own words. "All in all, it appeared that RRB branches generally have an edge over the commercial bank branches in regard to its accessibility to the weaker sections of rural population, simplicity of loan application forms, assistance to borrowers in filling the same and flexibility of approach, but in regard to the cost of borrowing, loans from the RRBs were costlier."

4. Ibid. P. 57.
The important observations in respect of the management of the RRBs are that the Central Government nominees on the Boards are invariably from Delhi and mostly remain absent as they find it difficult to attend the meetings in remote corners, that almost all the Boards are found without representatives from non-farm sector and only a few boards had persons connected with the State Department of cooperation. In regard to staff composition, almost all the RRBs had managed to recruit locally available persons, considerably ensuring rural orientation. The staff from the sponsoring banks is limited to the officers' cadre.

As regards the crucial aspect of attaining the financial viability, it is felt that the RRBs reveal the potentiality and capability to achieve the same in about three to four years. There is enough scope for expanding business even among the weaker sections. If they are allowed to purvey credit to other observing sections of rural economy, this will perhaps help them better to mobilise local deposits and also expand loan business. Besides, the public response to this new institution is found to be generally favorable. However, the scheme of the ceding of the societies is still beset with difficulties.

The recommendations of the Review Committee are contained in its sixth and final chapter of the report. The chapter is divided into two parts, the first dealing with the organisational structure of rural credit institutions and the place of the RRBs, such as its constitution, its functions and

5. Ibid. P. 67 and 68.
the system of control and regulation are dealt in the latter part. In the following, we focus on the quintessence of these valuable recommendations.

The committee recommends that the Government of India and the RBI may take steps to initiate the process of making the RRBs an integral part of rural credit structure. The RRBs with some structural and functional modifications can become a very useful component in the totality of rural credit structure. This is to be done without disturbing the cooperative credit structure at the base level. In the first instance the RRB system should be extended to such areas where the DCCBs are not able to adequately serve the PACS within their jurisdiction. Even in the areas where the cooperatives are very strong, the RRBs and DCCBs can coexist without a clash of interest as the credit gap is very large. The RBI should chalk out the programme of area selection for the new RRBs in consultation with the State Governments and the Commercial Banks. In many respects, the RRBs are superior to the rural branches of the commercial banks.

The specific recommendations pertaining to organisation and functional aspects are highlighted here. In regard to the jurisdiction, it should be ideally limited to one district, as it is a well-established administrative entity and facilitates liaison with other agencies and development programmes. From the point of view of managerial efficiency and financial viability, the number of branches per the RRB should be between 50 and 60. The overseeing authority should be vested in RBI which can determine the jurisdiction. Since the scheme is fully
operative, the multiplicity of control and regulation needs to be simplified. In this regard the steering function is no longer required at the Central Government level and it should be devolved to the RBI. The appropriate relationship between the RRB and the Sponsoring Bank would develop on the basis of recommendations made in respect of Ownership of share capital, Composition of the Board, Appointment of the Chairman, etc.

As there are distinct advantages in permitting local participation in the share capital of the RRB, such a shareholding should be open to the cooperatives, other local institutions and individuals within the jurisdiction of the RRB. Any shortfall in the share of local participation may be made good by the Sponsor Bank or the RBI, with the proviso that as and when the local demand for subscription comes up, these may be released to locals. Hereafter, it should be the RBI, instead of the Central Government, that should contribute to the RRBs share capital. The suggested change in the composition of the share capital would be :-

(i) The Sponsor Bank : 40 Percent
(ii) The Reserve Bank Of India : 25 Percent
(iii) The State Government : 15 Percent
(iv) The Local Participation : 20 Percent

The change recommended in regard to the composition of the Board is that it should have eight members besides the Chairman comprising three nominees of the Sponsor Bank, two
non-officials of the State Government, two non-officials from amongst the local shareholders to be nominated by the RBI and one RBI official. The notification of the appointment should be issued by the RBI as the overseeing authority. In regard to the appointment of the chairman, the present practice of deputing an officer from the Sponsor Bank needs to be modified. The Chairman should be nominated by the sponsor bank only for the initial period of 3 to 5 years and the subsequent appointments should be made by the Board of Directors of the concerned RRB with the concurrence of the RBI.

In the matter of loan and other business of the RRBs, the momentous change suggested is to relax the present conditionality of excluding the large farmers and others who do not come under the category of weaker sections. This recommendation is made on the grounds of better deposit mobilisation, less dependence on the Sponsor Bank and the RBI for refinancing and in general interest of agricultural development. However, in order to prevent the pre-emptying of loanable funds by large farmers and to retain the image of the poor man's bank, it may be stipulated that at least 60 percent of the total loan amounts should be earmarked for the benefit of the weaker sections and suitable ceiling be fixed on each individual loan in respect of the remaining 40 percent of loans. Also it is recommended that the provision of other banking services in the command area of the RRBs be allowed to be undertaken by the branches of the RRBs on their own and or on an agency basis on behalf of the Sponsor Bank and other banks.
The interest rate policy inclusive of the DRI scheme is a matter of general banking policy and, as such, the committee refrains from making any recommendation on it. Nevertheless, the committee suggests that the RRBs undertake intensified extension services and such other assistance to obviate the position of maintaining the parity with PACS in the matter of interest rates. Moreover, the RRBs are conceived as an institution to supplement and not supplant the cooperatives and hence the continuation of parity in interest rates. As regards the scale of finance the Review Committee endorses the recommendations of the Rural Credit Review Committee for the adoption by the RRBs.

As regards the operational aspects, the linking of PACS with the RRBs, wherever the DCCBs are weak, may be resorted to only when the state government and the cooperatives are convinced that such an arrangement is necessary. Besides, various facilities, such as, automatic registration land mortgage, stamp duty exemption, on the basis of Talwar Committee’s recommendation, should be extended to the RRBs as well. The relaxations, concessions and formula for refinance facility made by the RBI should be retained atleast for the first five years from the inception of the RRB. It is strongly recommended that a land pass book should be issued to each cultivator so as to facilitate easy identification of small farmers and avoidance of overlapping financing. The necessary changes in the procedures to be followed by the RRBs may be made in the light of the recommendations of the recently appointed Khanna Working Group and Desai Expert Group.
In the matter of management structure, recruitment and training of the staff, it is suggested that the RRB should have a senior officer, with the rank of a General Manager to look after the banking operations, so as to leave enough time to the Chairman to attend to the task of building up the RRB. In keeping with the innovative nature of the RRBs' loan operations, it is necessary to equip them with adequate technical staff, according to the predominant local needs. At the branch level, the present complement of three-man staff (managers, field officer and cashier-cum-clerk) needs to be initially reduced to two members, with the technical needs of the branch being looked after by the Head Office. As and when the branch business expands it may become necessary to provide technical staff even at the level of branch or for a group of branches.

The qualifications for recruitment of the branch manager, field officer and cashier/clerk should be appropriate to the tasks, and in this regard, it is suggested that the RRBs may seek the help of NIBM in developing the necessary tests. In regard to the training of the staff, the committee suggests replacement of the present centralised training at CAB, Pune by decentralised training under the auspices of the respective Sponsor Banks. In this connection, it is also urged that a separate institute to be called "Rural Credit Training Center" be set up by each Sponsor Bank, the steps in this direction to be taken up immediately as setting up such centers require considerable time. Furthermore there would also be a need for providing an orientation into the problems of rural economy at least for the
Branch Managers of the RRBs.

In respect of the salary structure of the RRB Staff, the Review Committee while drawing attention to some anomalies in certain areas and one memorandum received by it, has stated that it would not take any rigid stance on this issue. At the same time, it would like to emphasise the need for keeping the operational costs of the RRBs at a low level and for proper alignment in the emoluments received by the different categories of the RRB staff with a view to avoiding any anomalies.

3.3 Report Of The CRAFICARD:

The second report under the purview of the present chapter is the one brought out by the "Committee to Review Arrangement For Institutional Credit For Agriculture And Rural Development", more popularly known by its acronym, CRAFICARD. It was appointed by the RBI in March, 1979, under the Chairmanship of Shri. B. Shivaraman. The report of this nine-member committee was published by the RBI in January, 1981.

At the outset it may be pointed out that, unlike Dan-twala Committee which was specifically meant to Review RRBs, the CRAFICARD was entrusted with the review of the entire gamut of the rural institutional credit scene in India. The eight-point terms of reference of the CRAFICARD are very comprehensive, enveloping all aspects and issues.

In its report, the RRB occupies relatively a very small place, just a brief chapter, and some references elsewhere relevant to it, since the Dantwala Committee just recently had exclusively gone into the matter. In this section, therefore, the focus of attention will be mostly confined to the relevant comments of the CRAFICARD on the RRBs.

The CRAFICARD regards the RRB as the third type of institution, after the cooperatives and the commercial banks, in the multi-agency setup. As of June 1980, the RRBs' share in the total outstanding agricultural was 1.8 percent and in total investment credit 2.0 percent considering all the institutional credit together. During its five-year existence, the total number of the RRBs has risen to 73 with 2,678 branches. The deposits too have increased by several folds. The CRAFICARD makes it quite clear that there is ample scope for all the three types of institutions operating in the rural sector, in view of the large magnitude credit requirements of diverse nature. After recognising the useful role of the RRBs as special institutions, set up to correct the regional imbalances and functional deficiencies in the institutional structure, the Committee suggests problemwise measures to strengthen the RRBs to fulfill their objectives.

The first problem concerns the coverage, giving rise to the issue whether the rural business of the commercial banks needs to be transferred to the RRBs. The new RRBs are located in
areas where the Cooperative Credit System is weak and the commercial bank branch network inadequate as recommended by the Dantwala Committee (1978). Contrary to some fears expressed in some quarters, the RRBs have not snatched away the business of the cooperatives. The large magnitude of diverse credit needs in the rural sector provides ample scope to both the DCCBs and the RRBs. As between commercial bank branches and RRBs, the latter are more suitable as they devote special attention to the weaker sections, having advantages of lower cost of operations and managed by local people with the knowledge of the problems of the area. Some commercial banks are inclined to sponsor a RRB rather than open their own branches. Wherever possible, it would be advantageous to encourage the commercial banks to transfer their branch business to that of the RRB branch. Rural branches with predominance of loans to the weaker sections may be given priority for such a transfer. If the nature of business is other way round, that is, clientele being large farmers, the commercial banks may retain their branches in such locations. The commercial banks themselves should take initiative to draw up the scheme of transfer of business on mutually agreed terms, with the RBI facilitating such arrangements.

As regards viability aspects of the RRBs the CRAFICARD takes note of the serious constraints on lending to the weaker sections, charging lower rate of interest, low cost profile and opening branches in remote corners. It is felt that, given a reasonable margin and creation of conditions of accelerated rate
of business growth, the RRBs are capable of breaking even at a
level of business of about Rs. 8 crores through a network of
about 70 branches in about six years. Based on Dantwala Committee
and especially the subsequent RBI study the positive signs of
potential and prospects of viability with in a short and foresee­
able period have been noted and some RRBs have, in fact achieved
viability in shorter periods. However, it is pointed out that
financial viability cannot be the sole criterion for assessing
the performance in the initial years. In this regard CRAFICARD
endorses the suggestions made by the RBI study report for reduc­
tion in the cost of funds to the RRBs and for opening other
avenues of income. As regards the question of who should bear the
losses, the CRAFICARD does not favor the idea of sponsor banks
meeting the entire losses by themselves, since they are already
providing cost-free managerial assistance by deputing their own
staff, training expenses of the RRB staff, in addition to sharing
capital contribution and funds at a concessional rate of inter­
est. Therefore, it is recommended that the losses incurred by a
RRB should be made good annually by the shareholders, namely, the
Central Government, the concerned State Government, and the
Sponsor Bank in the same proportion as their share holding.
Besides, the equity capital which presently stands at Rs. 25
lakhs may be raised appropriately. The question may be studied
further by the RBI / NABARD and action initiated at an early
date.
In so far as the issue relating to whether services of the RRBs continue to be confined to the weaker sections, the CRAFICARD has noted that some minor relaxations have already been made allowing them to finance big farmers in land-based compact area schemes of the ARDC. It has already been seen that Dantwala Committee recommended the relaxation as a general rule but restricted to 40 percent of loanable funds to the non-weaker sections. Since the big farmers have other avenues of institutional credit open to them and the weaker sections require effective coverage of their credit needs, the CRAFCARD does not consider the present stage conducive for any general relaxation that may have the effect of diverting the attention of the RRBs from their goal. They should continue to confine their operation to the weaker sections. Any relaxation should be exceptional, for example in the backward, hilly-tribal areas. In the CRAFICARD's view, the image of the RRB as a small man's bank should be kept up.

As regards the issue of cost profile of the RRBs, the CRAFICARD is inclined to subscribe to the view of achieving a favorable cost-benefit ratio. This has a bearing on emoluments of the staff which is statutorily binding on the RRBs by section 17(1) of the RRBs Act, 1976. The demands of some employees of the RRBs and their unions for higher remuneration on par with the scales of the Central Government or the Commercial Banks is inconsistent with the basic concept of the RRB as a low cost institution. According to the CRAFICARD, the emoluments of the staff should be continued to be determined with due regard to the
state government scales. Although there are variations from state to state, the conditions of the staff of the RRBs operating within a state have to be uniform. There is no valid reason for the uniformity for all the RRBs in the country, disregarding the salutary principle of parity and harmony between the RRBs and the states in which they operate.

In the matter of relationship between the RRBs and the sponsor banks, the CRAFICARD has noted divergent views expressed by the commercial banks. One view holds that the existing links should be continued and further strengthened since the RRBs have been conceived as the rural arm of the sponsor banks. At the other extreme, there is a view that the RRB should be entirely de-linked from the sponsor bank, as it would then help build up its own image and ethos. The CRAFICARD is of the opinion that the existing arrangements must continue in regard to the provision of recruitment and training of personnel beyond the stipulated period of five years.

(Section 3(3) of the RRB Act).

The banking aspects of the linkage need to be continued since the sponsor banks are the financing banks as well. Besides, the sponsor banks must bear the responsibility for technical assistance in project formulation, recruitment and training of personnel, on the same terms for a period of ten years of each RRB. Thereafter, any arrangement for assistance of this type can be decided upon by mutual agreement.
In respect of the local participation in the RRBs, after due regard to Dantwala Committee’s recommendation, in the involvement of the cooperatives, local institutions and individuals in the area by allotment of shares of the RRBs, the CRAFICARD is of the opinion that this may raise some practical problems pertaining to eligibility basis and other aspects of allotment. Local involvement can be ensured better, as nomination of local persons on the Board of Directors. Thus the CRAFICARD recommends nomination of at least two non-officials from among progressive small farmers, social workers, and persons connected with rural development, one by the GOI and the another by the Sponsor Bank. In this connection, it is felt that it is advisable not to consider persons who are active politicians or office-bearers of political parties.

In regard to the issue of the overseeing of the RRBs, the CRAFICARD has noted the action already taken on the recommendation of the Dantwala Committee by setting up a new steering committee in the RBI itself. Furthermore, the CRAFICARD has strongly endorsed the Dantwala Committee’s recommendation that the entire control, regulation and promotional/developmental responsibility relating to the RRBs should vest with the RBI instead of with the Government of India. However, the only modification recommended by CRAFICARD is that NABARD will take the place of RBI in the new set up. It is also urged that necessary amendments to the Act may be made at the earliest.
The CRAFICARD is of the view that certain facilities, concessions now available to the RRBs such as concessional re-finance from the RBI, Lower standards of liquidity, slightly higher rates of interest on deposits etc should be continued and the classification of the RRBs as Scheduled Banks should not be allowed to stand in the way.

The future outlook for the RRBs as visualised by the CRAFICARD is quite encouraging. It will have an increasingly important role as an integral element of the multi-agency system at the grass root level. The RRB is more suitable for adopting an individual approach than the rural branch of the commercial bank, in a view of its low cost profile, wider network of its branches in remote rural areas, the local feel of the staff and its image as a small man's institution. It follows that the RRBs must be organised in districts where cooperatives and commercial banks have not made much headway for some reasons. In addition, if the selective transfer of business by the commercial banks to the RRBs takes place, the RRBs will eventually become district level commercial banks ready to diversify their activities.

3.4 Report Of The Working Group On The RRBs : ( Kelkar Committee ) : 1986.

In the light of the experience of the working of the RRBs in the past 10 years or so, a need has been felt to review the various aspects of their functioning so as to suggest

appropriate measures for strengthening their organisational structure and improving their overall capabilities. Accordingly, the Government of India, in the Ministry of Finance set up a working group on 28 August, 1984, under the Chairmanship of Shri. V. K. Dar, then the Additional Secretary in the Ministry Of Finance, Banking Division of Department of Economic Affairs with six other members.

The terms of reference of the Working Group were to evaluate the functioning of the RRBs and make appropriate recommendations on :-

(a) The suitability of the present structure, coverage and operational strategies of the RRBs taking into account the role assigned to them.

(b) The size, coverage and clientele of the RRBs with a view to ensuring the viability of the RRBs and the mechanism of meeting the operational losses of such RRBs where essential.

(c) Strategies for proper recruitment, development and deployment of manpower resources.

(d) The responsibilities of the sponsor banks towards their sponsored RRBs both in the short and long-term and

(e) Any other aspect germane to the main area of enquiry.
Shri. V K. Dar was elevated as secretary of the Government of India, Department of Revenue, in March 1985 and Shri. S. M. Kelkar who joined as additional secretary (Banking) was appointed as Chairman of the Working Group. The committee was appointed on 10th March 1986. For the major part of its tenure inclusive of the concluding phase, the Working Group has functioned under the chairmanship of Shri. Kelkar and as such, its report has come to be known as the Kelkar Committee Report.

The highlights of the Kelkar Committee's report, especially the major conclusions and important recommendations, are mentioned here. Since the inception in October, 1975, the RRB as an institution has proliferated enormously enough to cover about three-fourths of the districts across the country nearly in a decade. As of June, 1985 the RRBs numbering 183 had a wide network of over 12,000 branches, and had mopped up deposits worth Rs. 1,057 crores and their outstanding advances amounted to Rs. 1,188 crores, the respective number of accounts being 148.38 lakhs and 62.98 lakhs. The average size of a deposit at Rs. 712 and a borrowal at Rs. 1,886 per account would clearly indicate its orientation of catering to the weaker sections. As at the end of June 1985, 183 RRBs had employed 42,225 persons on full time basis, comprising 21,827 officers, 20,713 clerks, and 225

---

sub-ordinate staff. This is besides the part-time messengers, numbering around 10,000. In addition to this, the staff of the sponsor banks working with the RRBs numbered 1,012, 80 percent of it being officers. The committee feels that the cost of running a branch of the RRB is still lower than that of a commercial bank.

In regard to the coverage of a number of districts and branches by any RRB, the committee feels that the manageability and better control by the Head Office over the branches should be guiding criteria and thus recommends bifurcation of unwieldy RRBs. This is to be undertaken by NABARD on a case-by-case basis for turning unmanageable and uneconomic RRBs into viable units. While establishing new RRBs priority be given to areas with preponderance of SC/St population, existing credit gap and banking facilities. The committee recommends that the RBI may relax its policy norms in regard to the opening of the branches by according priority to the RRBs, taking into account the need and viability aspects.

As regards the present system of process of nomination of the Board Of Directors, Which is time-consuming, the committee has suggested some changes. It recommends that the Government of India may restrict itself to nominate only two non-officials and others be directly nominated by the respective authorities without reference to the Government of India. The suggested new pattern of the Board, apart from the chairman, should comprise
nomination of two non-officials by the Government of India, two officials each from sponsor bank and State Government and one official each from the RBI and NABARD. The Chairman preferably a senior officer be appointed by the concerned sponsor bank in consultation with NABARD. as it envisages a greater role for the sponsor banks.

One of the important recommendations pertains to the virtual rejection of the suggestion to enlarge the borrowing clientele of the RRBs by inclusion of bigger farmers for improving viability. It is felt that the non-weaker sections may continue to depend on the commercial banks and cooperative sectors and as such, the RRBs must retain their present image of small man's banks. Nevertheless, it is suggested that in order to improve the cost of operation, the RRBs may be permitted to lend to local public bodies such as Village Panchayats, housing Boards, SC/ST corporations etc. NABARD may evolve a suitable framework for such operations.

Turning their attention to the question of financial viability, it is observed, on the basis of balance sheets for 1984, that as many as 130 out of 173 RRBs had incurred losses. Actually the accumulated losses of 49 RRBs had eroded their entire paid-up share capital and in the case of another 26, it was about half of their share capital. Briefly, the main reasons are: the erosion of margins over the years, the high cost of servicing small accounts resulting in a low net return on their
advances and the situation of the initial negative contribution to profitability arising from very rapid growth in branch expansion activities. Clearly, poor financial viability is inherent in the present arrangement. The important recommendations pertaining to the improvement of financial viability are as under:-

(i) The paid-up share capital should be raised from the present level of Rs 25 lakhs to Rs. 100 lakhs in the same proportion among the existing share holders.

(ii) The RRBs share of 20 percent in the present refinance formula for ST loans should be raised to 30 percent with a view to increasing the RRBs' own involvement in loans and advances. The share of the sponsor banks may be reduced from present 30 percent to 20 percent level.

(iii) The rate of interest charged by a sponsor bank to the RRBs should be reduced from 8.5 percent to 7.0 percent.

(iv) The deposits kept with the sponsor bank for SLR requirements, which yield upto a maximum of 8.0 percent may be invested in the government securities to get a return of about 11.0 percent. This specialised job of investing and encashing securities may be handled by the sponsor banks on behalf of their RRBs.

(v) In addition to SLR, the RRBs' deposits, certain funds with sponsor banks for day to day requirement and also funds borrowed from the NABARD, remain in the current account in the sponsor banks instead of loaning, getting a return of
8.0 percent per annum. This unhealthy practice needs to be discouraged. In this regard, it is recommended that over and above SLR requirement (25% of deposits) the RRBs may be allowed to keep an additional 10 percent of their funds with the sponsor banks, which may be called Permissible Excess Liquidity (PER). The RBI may allow maximum permissible rate (which is presently 10 percent per annum) treating it as an inter-bank transaction. Funds over and above the PEL, if kept with the sponsor banks should be offered a rate of interest at seven percent, which is the same rate proposed for the refinance to be charged by the sponsor banks to the RRBs.

(vi) Drawing the attention of a recent instruction of the NABARD to the RRBs to progressively bring their CD ratio down to 100 percent in the next five years, the committee feels that such a restriction is not desirable as it would lead to overall shrinkage of loans by the RRBs. Therefore, it is recommended that the proposed restriction on CD ratio of the RRB may not be insisted upon.

(vii) In regard to loan portfolio of the RRBs, any imbalance as between investment credit and working capital needs to be avoided by a judicious readjustment of their loan portfolio. In order to avoid infructuous investment, adequate working capital loans on a short-term basis must be provided.
Since the NABARD has taken over from the RBI the overseeing functions, the guidance in operational and other matters to the RRBs should be provided by their sponsor banks. The Steering Committee on the RRBs on policy matters must have a Standing Committee to advise the NABARD and meet as and when necessary but atleast on a quarterly basis. On the other hand, the involvement of the Sponsor Banks has to be much more direct than their present marginal assistance in the matter of refinance and deputation staff of the RRBs. It is recommended that the sponsor banks should aid and assist their RRBs in their operational matters. These include:— advice on their RRBs’ fund management to obtain maximum returns, monitoring their progress, assisting in developing proper system of control over the RRBs branches, helping the RRBs in appraisal of bankable schemes, taking the responsibility in the matter of providing staff for internal audit of the RRBs, periodical inspections on the same analogy of the State Cooperative Banks vis-a-vis the DCCBs.

As shareholders, the concerned State Governments should assist the RRBs in the recovery of overdues, in providing necessary infrastructure support, security arrangements for valuable remote rural centers and in preparing area-specific and bankable schemes to be financed by the RRBs.

As regards the limited avenues available within the RRBs for promotion of the staff, it is recommended that some posts in the officer cadre may be made available to the RRB officers with requisite qualifications and experience.
In respect of accumulated losses it is recommended that the losses arising from non-availability of the benefits of the measures now suggested by the committee, be borne by the three shareholders in proportion to their equity and those arising from bad management be borne by the RRBs themselves.

The above measures suggested by the committee have to be accepted and implemented as a package and not in isolation. This is the concluding plea by the Kelkar Committee. The committee was confident that if their recommendations were properly implemented, the RRBs in future would be better equipped and more effective institutions to subserve the rural weak, which was the primary objective for their establishment.

3.5 Report Of The Agricultural Credit Review Committee:
(Khusro Committee) : 1989.

In this section we take up the monumental Report of The Agricultural Credit Review Committee, entitled, "A Review of the Agricultural Credit System in India". It is, by far, the most comprehensive and the most voluminous report prepared during the last four decades or so, after the Gorwala Committee Report (1955). This all-inclusive huge report, prepared by the committee under the Chairmanship of Mr. A. H. Khusro, a distinguished professor, runs to 1074 pages. The comments and suggestions relevant to the theme of our study are briefly presented in the following :-
At the outset, it is significant to note that the committee, after analysing the working of the RRBs in great detail arrives at the monumental conclusion as quoted here. "Though the RRBs have proliferated to be 194 in number with 12,838 branches, they have, as might have been expected, become a scene of severe economic losses and have brought upon themselves what appear to be permanent disabilities. As we have already stated, only 48 out of the 194 RRBs are making some semblance of profit but the remaining 146 are in the loss-making category. Their intended low-cost structure has ceased to be low-cost with progressive increases in the scales of pay of their staff, now in many states on par with Central Government Scales. Studies have shown that they will continue to be non-viable even if they are allowed to lend to an extent to the non-poor category of borrowers also”.

The committee takes a very dim view about any prospect of favorable change in the factors which are affecting the viability of the RRBs. Despite the noble concern for the upliftment of the poor, the very structure of the RRBs itself seems to provide much cause for its weakness in generating, sustaining and augmenting the credit cycle. The committee adds, "These institutions seem to be subject to permanent disabilities, so much so, that the aim of serving the poor has ended up in going poor service. It is owing to these permanent disabilities that after

9. "A Review Of The Agriculture Credit System In India”.

Reserve Bank Of India. Bombay. P. 27.
much search for alternative arrangement, we have reached the conclusion that there is no choice except to put the RRBs under the umbrella of the sponsoring commercial banks, in a major overhaul of the present structural arrangements. It should be noted that in terms of our recommendations, the RRBs would stand abolished as legal entities and would merge with the commercial banks which originally sponsored them. Their branches may continue as rural branches of commercial banks. However, we stress that it should be incumbent on the commercial banks to maintain after merger in the new rural branches, at least the same proportion of lending to the poor as prevailed before the merger. The committee has also recommended that the current target of lending to the weaker sections by the commercial banks at 10 percent of the net bank credit be raised to 15 percent to take care of such increased lendings to the poor in the post-merger period. The committee believes that such merger will have the advantage of larger resources for the merged RRBs though cross-subsidisation possibilities. As the erstwhile RRBs, that is to say the new rural branches, will lend to anybody, though especially to the poor, they will, by raising larger deposits from the small as well as the large deposits be able to serve the needs of the area better." The above drastic recommendation is made by the Khusro Committee despite the quantitative progress. Admittedly in setting up the RRBs, in district after district across the country, branch expansion, deposit mobilisation and lending operation.

---

10. Ibid. P. 27.
the RRBs overall progress has been impressive. Also we must admit that there is the considerable degree of success achieved in reaching the banking services to the poor in very remote, tribal and hitherto unbanked areas. Nevertheless, it is performance of the RRBs in terms of the impact on rural credit structure and their success or otherwise in fulfilling the objectives with which they have been set up, that has become a crucial basis for the committee.

The Khusro Committee takes note of the various deficiencies in the working of the RRBs as mentioned earlier by the Dantwala and Kelkar Review Committees. Both had brought out several deficiencies, especially the RRBs' inability to function on a viable basis. Despite this inherent weakness, both committees as well as the CRAFICARD have held the view that the RRBs should be retained and accordingly suggested several measures to improve their viability. However, the Khusro Committee holds the view that the major restructuring of the RRBs is a negation of the very basic assumptions which provided the rationale for setting up of the RRBs.

In its report, the Khusro Committee has identified several critical areas in the performance of the RRBs. During the year 1986, three-fourth of the RRBs incurred losses. The accumulated losses of all the RRBs together amounted to Rs. 94.3 crores.

by the end of 1986 and in the case of 117 out of 194 RRBs, their entire share capital was wiped out by the accumulated losses. Even after many concessions allowed after the Kelkar Committee recommendations, the accumulated losses increased to Rs. 133.1 crores in 1987. The committee is of the view that profit eroding factors are endemic to the system structured as it is. The mandatory lendings to only the weaker sections yielding low interest margins, high cost of servicing large number of accounts with low volume of business are some of the factors contributing to the unprofitable working. In order to break even it is worked out that with a financial cost of 7.80 percent per annum and transaction cost of 8.65 percent the RRBs have to charge at least 16.45 percent interest. Obviously, this is impossible in the present system of the RRBs' targeted clientele.

As regards the management, the committee is of the opinion that the working of the Boards leaves much to be desired. Irregular meetings, adjustments for want of quorum and approval of the resolutions by circulation inadequate interest on the part of the non-official directors and disproportionately large amount of the time devoted to personnel and recruitment matters are some of the things mentioned about the Boards. The low recovery rate and mounting overdues do not hold much promise for the viability of the RRBs. The rate of recovery was 49 percent as on June 1986. The high overdues in some RRBs are ascribed to several factors,

12. Ibid. P. 141.
such as irregular and benami advances, staff agitation for wage parity with the commercial banks, wilful default, loan misutilisation, lack of follow-up etc. In regard to the staff, the major problems have been inadequacy of personnel in relation to workload, difficulties in recruitment, lack of training and lack of motivation. Frustration among the staff owing to the lack of promotional avenues is also noticeable.

Although most weaknesses are quite common to the other institutional structures what really distinguishes the RRBs is their built-in non-viability. The committee avers that the rationale justifying the inception of the RRBs exists no longer. There have been qualitative changes in the last few years and the commercial banks have expanded in rural areas much faster than the anticipated levels. Besides the expected local feel through their staff has not been found to be the same as in the cooperatives. The alternatives to the modification of the RRBs to keep them going are not likely to be satisfactory. The committee claims that its recommendation of merger of the RRBs with the concerned sponsor banks is intended to give the weaker section a stronger institution to serve its needs more efficiently. The net loss of each RRB should be apportioned in the same proportion as the share holdings of the central and the state government and the sponsor bank. The merger arrangement will have a built-in self-strengthening and internal cross subsidisation capability.

13. Ibid. P. 142.143.
The committee hopes that, "the emerging system will be able to achieve the goal of creating a strong viable credit system in which the interests of the small man would be better served."  

3.6 Report Of The Committee On The Financial System:

This is the fifth report under the purview of the present chapter. This latest report, however, makes only a very brief passing reference to the RRBs in so far as it touches some aspects of the general reorganisation of the financial system and banking structure in the country. Nevertheless, the relevant comments and the recommendation of this committee pertaining to the RRBs as an institution are briefly mentioned in this concluding section.

The nine-man committee on the Financial System, under the chairmanship of Shri. M. Narasimham, was appointed by the Ministry of Finance, Government of India, in August, 1991 and its report was published in November 1991. The eight point terms of reference of the committee were to examine and make recommendations thereof, on matters broadly relating to existing structures of the financial system with particular reference to financial services, industry, including legislative framework and changes if any, required.

The committee acknowledges the fact that the substantial branch expansion into the rural areas and the increase in provision of credit to agricultural and allied sector has been one of the major achievements of the banking system since the nationalisation. However, this achievement has exacted a price in terms of erosion of profitability and organisational strain. The rural banking sector is largely characterised by unremunerative and non-viable nature of the operations. The weak and ineffective aspects may be seen in manpower deployment, internal controls, information retrieval, absence of effective post-credit supervision and recovery of loans, among other things.

As regards the RRBs in particular, it is noted with concern that their functioning leaves much to be desired. Much of it stems from the restrictions placed on their business. The low earning capacity and the rising cost of operations have seriously affected their financial viability. Excepting a very small number (barring a handful) almost all the RRBs are working at considerable loss with very little relief in sight. An important rationale for the setting up of the RRBs has ceased to exist with the increase in salary scales almost on par with those of the commercial banks. The sponsoring banks also have their own rural branches in the very area of their RRBs and this feature has given rise to certain anomalies and to avoidable expenditure on controls and administration.
According to the committee, the solution lies in the evolving a rural structure which combines the advantages of the local character of the RRBs and the financial strength and organisational and managerial skills of the commercial banks. The credit gap is so enormous that there is still a long way to go for taking care of the rural banking requirements. The need is to establish a viable banking structure which could effectively meet the rural credit requirements.

In regard to the structure of banking system that should evolve towards a broad pattern, the committee's view on the rural sector is clearly stated. The operations of the rural banks, including the RRBs would be confined to the rural areas and their business would be predominantly engaged in financing of agriculture and allied activities.

In the light of the above observations, the committee makes very important and structurally innovative recommendations. At the outset, each public sector bank should set up one or more rural banking subsidiaries, depending on the size and administrative convenience of each sponsor bank, to take over its rural branches. Moreover, the sponsor banks should have the freedom to swap, their rural branches with those of other banks which would facilitate banks having fewer rural branches in certain districts to cede them in favor of those banks which have a larger presence. Thus it should be possible to evolve a rational structure of subsidiaries of national banks which could handle rural banking in a more efficient and cost effective manner.
The committee goes on to add that such rural subsidiaries of the national banks should be treated as on par with the RRBs in regard to SLR and CRR requirements and refinance facilities from NABARD for improving the viability of rural operations. This should be accompanied by a ten percent target for directed credit as a transitional measure. It may be calculated on the basis of the combined aggregate of the parent banks and their subsidiaries. In this regard the committee is of the opinion that the prevailing redistributive objective should be pursued by using instrumentality of the fiscal rather than the credit system. Thus the directed credit programmes should be phased out. In the meantime, there is a need for redefining the priority sector and the directed credit limited to this sector on a transitional basis.

The redefined priority sector as suggested by the committee, consists of small and marginal farmers, the tiny sector of industry, village and cottage industry, rural artisans and other Weaker Sections. The credit target of this sector should be fixed at 10 percent of aggregate credit which would be broadly in line with the credit flows to these sectors at present. A review may be taken after a three year period to assess the need for continuation of the directed credit programme.

Another important recommendation concerning the RRBs is that they should be allowed to engage in all types of banking business, catering to all types of clientele. Nevertheless, their
focus should continue to be to lend to the target groups to maintain at a minimum the present level of their lending to these groups, (1989-90 level). Furthermore, the interest rate structure of the RRBs be in line with those of the commercial banks to enable the RRBs to become operationally viable in the due course of time.

In order to improve the viability further, it is recommended that a mechanism be worked out under which the RRBs could place surplus funds with either NABARD or with a federal type of agency that might be set up for this purpose. This arrangement could be extended to SLR and such other requirements as well to the best advantage of the RRBs financial earnings.

In respect of the further continuation of the RRBs, the committee, however, leaves the option open to the RRBs and their sponsor banks. They have the choice between retaining their identity and merging on a voluntary basis with the proposed sponsor banks rural banking subsidiaries. In the case of such mergers, it is recommended that the sponsor banks take them over as 100 percent subsidiaries initially by buying out the shares of the RRBs held by other agencies at a taken price and eventually merge them with their rural banking subsidiaries as proposed by the committee. The committee also believes that the steps they have outlined to rationalise the functioning of rural banking institutions would go a long way in improving the
viability of the concerned institutions and help to build a strong and broad-based structure of rural credit.

Finally the committee is of the view that the structure of the banking system should evolve towards a broad pattern consisting of:

(a) Three to four large banks (including SBI) which would become international in character.

(b) Eight to ten national banks with a network of branches throughout the country engaged in "universal" banking.

(c) Local banks whose operations would be generally confined to a special region, and

(d) Rural banks (including the RRBs) whose operations would be confined to the rural areas and whose business would be predominantly engaged in financing of agriculture and allied activities.

The committee is of the view that the move towards this revised system should be market driven and based on profitability considerations and brought about through a process of mergers and acquisitions.

This is the sixth and final report under the purview of the present chapter. The report document is not yet published and hence not available. But, The Journal of the Banking Studies published in February, 1995 a very brief content of the said report. This report is not directly related with "Restructuring of 49 RRBs". The three member committee on the restructuring of 49 RRBs was appointed by the RBI in May, 1994. The committee is headed by NABARD, Chief General Manager Mr. M. C. Bhandary and its other two members are Mr. Y. Thorat, Joint Chief Officer, Rural Planning and Credit Department, RBI and Mr. P. N. Ramamoorthi, Director, Banking Division. The highlights of the "Bhandary Committee" Report, particularly in respect of the recommendations are mentioned in the following seven points:

(1) Recapitalisation Of 49 RRBs:

The committee has recommended that the 49 RRBs undertaken for reconstruction should be recapitalised, to the extent of Rs. 260 crores to write down their bad debts and cleanse their balance sheets. The committee is of the opinion that Rs. 260 crores may be drawn from the Rs. 5600 crores allocation made in this year's budget (1995-96) for nationalised banks.

(2) Amount Of Refinance As Priority Sector Lending:

The committee said the RRBs should be permitted access to the credit portfolios of their sponsor banks through participation in credit syndication. To encourage the flow of funds to the RRBs, the committee has suggested that the total amount of refinance provided by the sponsor banks be treated as priority sector lending.

(3) Responsibility Of The Sponsor Banks For The RRB's Performance:

The committee has asked the RBI to introduce a specific clause in the MoU signed between the sponsor commercial bank and the Central Bank by which the sponsor banks undertake responsibility for the RRB's performance.

(4) The Rate Of Return On SLR Deposits:

The rate of return of SLR deposits of the RRBs should be pegged at half a percentage point over the coupon rate on 10 year government securities with effect from March, 1995. The committee has suggested that the RBI should review and refix the rate payable on such deposits annually. The SLR deposits of the RRBs with their sponsor commercial banks presently earn a ROR of 13.5 percent.
(5) Ceilings On The RRBs Investments:

The committee has also prescribed a ceiling on investments by the RRBs. Investment should not exceed 50 percent of the refinance drawn from NABARD, Sponsor Banks etc. or 25 percent of their aggregate deposits, whichever is higher. The committee also feels that the RRBs should also be allowed to invest their surplus funds in VIT schemes, fixed deposits of term lending institutions such as IDBI, IFCI, ICICI, SIDBI etc., bonds of the nationalised banks PSU bonds, housing finance companies and nonconvertible debentures of blue chip companies.

(6) Augmentation Of The Issued And Paid-up Capital:

The committee has suggested deregulation of interest rates on the RRB advances with a minimum lending rate of 12 percent. At present, the RRBs lend at three rates -- 12 percent for loans upto Rs. 25,000, 13.5 percent for loans between Rs. 25,000 and Rs. 2 lakhs and are free to determine the rate for loans over Rs. 2 lakhs.

(7) Effective Participation Of Government Organisation In Recovery Of Loans:

The committee has strongly recommended that the state-level administration and district collectors should aid in the recovery of the RRB loans. This should be on the lines
of the recovery officers that are deputed by the registrar of the co-operative societies for the urban cooperative banks.

The foregoing survey should suffice to give an insight into the operational difficulties and problems faced by the RRBs in India. An understanding of their problems, coupled with the socio-economic profile of the study area, should enable us to understand the extent of their relevance to the RRB we have chosen for study.