CHAPTER II

Rural Credit and Regional Rural Banks in India...
In 2000, over seventy percent of India’s population, and roughly three quarters of its poor, lived in rural areas. The main livelihood in rural India remains agriculture, an activity characterized by significant time-lags in production and a high degree of sensitivity to weather conditions. These features of agricultural production make access to financial instruments critical to a rural household’s ability to smooth income shocks and make long-term productive investments. However, as is well known lenders’ inability to perfectly identify the credit-worthiness of potential borrowers and the cost of enforcing repayment places severe restrictions on rural households’ access to credit. These problems are potentially more severe for the rural poor who are less able to reduce lender risk by providing collateral. This also has implications for the geographical distribution of formal credit lenders. Anticipating insufficient profits, lenders such as commercial banks, may choose not to set up branches in relatively poor rural areas. This, in turn, by giving lenders in the informal sector monopoly power may further raise the interest rates faced by the rural poor and restrict their access to affordable credit. Banerjee (2004) provides evidence that informal interest rates in India are high and exhibit significant variation.

Moneylenders in India are as old as its villages, agricultural credit cooperatives go back to a century, commercial banks have been involved in agricultural loans for nearly 50 years, the regional rural bank network is over 25 years old, and reforms in the banking system were triggered a decade back. Yet, credit flow to small farmers has remained far below needs, both for crop cultivation and for long term requirements such as land.

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development, irrigation and farm equipment as compared to the potential demand. The widespread discontent among farmers has manifested itself in the form of mass voting against incumbent governments as also individual acts of despair such as farmers committing suicide, particularly in Andhra Pradesh 2.

It is useful to recall that rural banking was traditionally a monopoly of the money lenders, till the colonial government enacted Co-operative Societies Act in 1904 with a view to making the co-operatives as premier institutions for disbursement of credit. The Process of a three-tier structure commenced in 1915. Government was also providing agricultural loans usually called Takkavi loans, which have since been discontinued. The RBI Act vested a unique responsibility of rural credit to the central bank. All India Rural Credit Survey (1951) of the RBI opined that the co-operatives were "utter failure" in providing rural credit, but added they had a vital role in agriculture credit. The Imperial Bank was nationalised as SBI, which was visualised as a vehicle for rural banking. A rural credit survey of 1966 also concluded the ineffectiveness of co-operatives but stressed the importance of their succeeding. Many State governments legislated the registration and regulation of money lenders but with little emphasis on implementation. Nationalisation of banks in 1969 gave a boost to expansion of banks and banking in rural areas. The Reserve Bank hived off a part of its role in agricultural credit to a separate national level institution, viz, Agriculture

Refinance and Development Corporation (ARDC) in 1975. Soon thereafter, a legislation was enacted to create Regional Rural Banks.

The institution of Regional Rural Banks was created to meet the excess demand for institutional credit in the rural areas, particularly among the economically and socially marginalised sections. Although the cooperative banks and the commercial banks had reasonable records in terms of geographical coverage and disbursement of credit, in terms of population groups the cooperative banks were dominated by the rural rich, while the commercial banks had a clear urban bias. In order to provide access to low-cost banking facilities to the poor, the Narasimham Working Group (1975) proposed the establishment of a new set of banks, as institutions which "combine the local feel and the familiarity with rural problems which the cooperatives possess and the degree of business organization, ability to mobilize deposits, access to central money markets and modernized outlook which the commercial banks have". The multi-agency approach to rural credit was also to sub-serve the needs of the input-intensive agricultural strategy (Green Revolution) which had initially focused on 'betting on the strong' but by the mid-seventies was ready to spread more widely through the Indian countryside. In addition, the potential and the need for diversification of economic activities in the rural areas had begun to be recognized, and this was a sector where the Regional Rural Banks could play a meaningful role. The Regional Rural Banks Act,
1976 succinctly sums up this overall vision to sub-serve both the developmental and the redistributive objectives. Inception of Regional Rural Banks can be seen as a unique experiment as well as experience in improving the efficacy of rural credit delivery mechanism in India. With joint share holding by Central Government, the concerned State Government and the sponsoring bank, an effort was made to integrate commercial banking within the broad policy thrust towards social banking keeping in view the local peculiarities. The genesis of the Regional Rural Banks can be traced to the need for a stronger institutional arrangement for providing rural credit. The Narsimham committee conceptualized the creation of Regional Rural Banks in 1975 as a new set of regionally oriented rural banks, which would combine the local feel and familiarity of rural problems characteristic of cooperatives with the professionalism and large resource base of commercial banks. Subsequently, the Regional Rural Banks were set up through the promulgation of RRB Act of 1976. Their equity is held by the Central Government, concerned State Government and the Sponsor Bank in the proportion of 50:15:35. Regional Rural Banks were supposed to evolve as specialised rural financial institutions for developing the rural economy by providing credit to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs.

Over the years, the Regional Rural Banks, which are often viewed as the small man’s bank, have taken deep roots and have become a sort of

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4 Biswa Swarup Mistra, "The Performance of Regional Rural Bank's in India: Has past Anything to suggest for Future?" Reserve Bank of India Occasional Papers, Summer and Monsoon 2006, Vol.27, No. 1 and 2, Pp.89-90
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. From a modest beginning of 6 Regional Rural Banks with 17 branches covering 12 districts in December 1975, the numbers have grown into 196 Regional Rural Banks with 14,446 branches working in 518 districts across the country in March 2004. Regional Rural Banks have a large branch network in the rural area forming around 43 per cent of the total rural branches of commercial banks. The rural orientation of Regional Rural Banks is formidable with rural and semi-urban branches constituting over 97 per cent of their branch network. The growth in the branch network has enabled the Regional Rural Banks to expand banking activities in the un-banked areas and mobilise rural savings.\(^5\)

**OBJECTIVES OF REGIONAL RURAL BANKS**

The main objective of the regional rural banks is to ameliorate the economic conditions of rural people by supplying their services. The specific objectives of regional rural banks are:

- To provide credit to small and marginal farmers, agricultural labourers, artisans, small entrepreneurs and persons of small means engaged in trade or other productive activities.
- To mobilize deposits in rural areas
- To expand branch banking in remote and unbanked areas

\(^5\) Ibid.
➢ To integrate the inputs, viz., infrastructure, extension services and credit for higher productivity towards the goal of achieving integrated rural development.

➢ To generate employment opportunities.

**FUNCTIONS OF REGIONAL RURAL BANKS**

To achieve the stated objectives as above, the regional rural banks undertake such functions as they lead to the socio-economic development of the rural people. The functions that are undertaken by regional rural banks are:

➢ To open branches in potential areas

➢ To mobilize rural savings by inculcating saving habit through designing appropriate saving schemes suitable to the rural people.

➢ To deploy credit adequately in right time to the target group such as small and marginal farmers, agricultural labourers, artisans and small entrepreneurs etc., who are economically potential.

➢ To undertake the supply, extension and customer services

➢ To monitor the projects financed

➢ To recover loans lent for recycling to the economic significance programmes of the rural sector.

➢ To act as agent for marketing mutual fund units.

**FEATURES OF REGIONAL RURAL BANKS**

The regional rural banks are born with certain specific features suiting their operations in rural areas to their target clientele of small and marginal farmers, agricultural labourers and rural artisans. To render
services to the target group needs a special ‘framework’ which inter-alia covers the following features. They are:

**a) Banking Business**

The business transactions of accepting deposits, lending money and other related functions in accordance to section 5 (a) of the Banking Regulation Act, 1949, Advance of loans may be productive and consumption. Regional rural banks are authorized to pay interest on deposits at the rates higher than the rates payable by the scheduled commercial banks by 0.50 per cent.

Refinance facilities can avail from the NABARD in addition to getting funds at a concessional rate of interest i.e., below bank rate. Further, they are treated on par with the status of the co-operatives for the purpose of Income Tax.

**b) Scheduled Bank**

The regional rural banks are included in Schedule II of the Reserve Bank of India Act 1934. Hence they are scheduled banks.

**c) Target Group**

The activities of regional rural banks are confined to financing of the target groups – small and marginal farmers, agricultural labourers, small business, artisans and other weaker sections of the rural area.

**d) Jurisdiction**

The regional rural banks operate within the specified district(s) in a State and establish their branches accordingly within their jurisdiction. Generally, the regional rural bank operates in an area of one to three districts which are homogeneous economic conditions in terms of agro-rural
entrepreneur – climate. The area of operations of an existing regional rural bank can be extended to adjoining district(s) with the concurrence of NABARD and the approval of the Government of India. The regional rural banks open their branches in unbanked and underbanked areas where co-operative credit system is weak and commercial banks have not been able to fully meet the credit needs of the people. The branch office of a regional rural bank covers on to three blocks, and is in a position to refinance five to ten farmers’ service cooperative societies.

**CAPITAL**

The authorized capital of a regional rural bank is Rs.100.00 lakhs and the issued capital is Rs.25.00 lakhs. This issued capital would be subscribed by the Government of India, the Sponsored Bank and the concerned State Government in the ratio of 50:35:15 respectively.\(^6\)

The Board of regional rural bank in consultation with the Reserve Bank of India, the State Government concerned and the sponsor bank; and with prior approval of the Central Government can increase the issued capital of regional rural bank from time to time. Such increase in issued capital would also subscribe in the same proportion as specified earlier.\(^7\)

The Regional Rural Banks (Amendment) Act, 1988 has enhanced the limit of authorized capital from Rs.1.00 crore to Rs.5.00 crores, provided that the issued capital shall not be less than Rs.25.00 lakhs and shall not exceed Rs.100.00 lakhs. However, this issued capital will be decided by the Central

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\(^7\) Ibid.
Government. Accordingly, today, most of the regional rural banks are working with an enhanced capital of Rs.75.00 lakhs. 8

**Organisation of Regional Rural Banks**

The regional rural banks shall carry on and transact business of banking as defined in clause (b) of Section 5 of the Banking Regulations Act, 1949; and may engage in one or more forms of business specified in Sub-section (1) of Section 6 of the Regional Rural Banks Act. They grant production as well as development credit.

**Structure**

The management of regional rural bank is vested in a nine member Board of Directors headed by its chairman. It is the highest-level body in the organizational hierarchy of management. The Board of Directors normally acts on business principles and safeguards the interests of public.

The Chairman devotes his full time to the entire management of the regional rural bank subject to the policy frame by the Board from time to time, which in turn follows the guidelines of Reserve Bank of India.

The Board of Directors of a regional rural bank is the apex body, which formulates business policy, identifies potential areas, fixes targets and achievements of the regional rural bank, and makes strategic decisions. The following members constitute the Board as per the Regional Rural Banks Act. They are:

- The Chairman is appointed by the Government of India on the recommendation of the sponsoring bank from among its officers

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Four Directors are nominated by the Government of India, under Section 9 (1) (a) of the Regional Rural Banks Act, of which two non-official Directors.

Two Directors are nominated by the State Government under Section 9 (1) (b) of the Regional Rural Banks Act

Three Directors are nominated by the Sponsoring Bank under Section 9 (1) (c) of the Regional Rural Banks Act.

The composition of Board, the professional credentials and commitments of the members have a far-reaching impact on the progress of the institution.

The role of Board is related to the expectations of the bank managerial ability. Keeping in view, the technological changes and keen competitive orientation, the role of the Board has begun to be viewed as wider and long-term perspective. In brief, the Board should ensure that the regional rural bank is:

- To be sound and effective in terms of business operations managerially
- To render quality service and ensure productivity on sound lines
- To develop a sound system of human values
- To achieve to define objectives.

A common observation is that the Board function is rather passive. Often, the members are selected not because of their knowledge of the specific functioning of the bank that they are supposed to oversee but because of their compatibility. Traditionally, it happens that the Board approves the proposals forwarded to it by the top management with
mounting uncertainties and changes taking place in the environment. The Board should undertake as well as perform the basic functions, which are:

- The board delineates the bank mission and strategic options
- The board examine the management proposals, decisions and actions; and give advice accordingly
- The board keeps abreast of developments.

Though, the Board of regional rural banks is vested with ultimate authority of management of the regional rural banks. However, as per section 30 of the Act, the Board is required to consult Sponsor Bank and NABARD for making any resolutions. If it so, should the Board of regional rural bank be only a watch dog or be a source of direction to the bank? Hence, there is urgent need to make the Board of regional rural banks totally professional and accountable.

**BANK POLICY**

The premier institute, Reserve Bank of India is a policy-making body and is an organization of higher control. Policy may be basic or general. A basic policy guides the executive management in its conduct. Koontz and O’Donnel have described the policy as “a general statement or understanding which guides or implied overall guide the setting up boundaries that supply the general limits and direction in which managerial actions take place.”

The executive should carry out the business in accordance with these policy guidelines. The objectives set the goal and the policy shows the way towards the goal. The policy should be:

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An organization without definite policy is like a ship without a rudder. Therefore, a policy is inscribed with sacred objectives fostering economic growth and development. Policy reflects the competence and capacity of an institution. In fact, the policy guides ‘thinking and doing’ in decision-making. Therefore, the policy prescription should take note of the fact that the banks are not only channel funds to day-to-day operations, but also act as change agent of the socio-economic conditions of people.

**Branch Expansion Policy**

Effective operations for collecting rural savings from the myriad of savers and proper channeling credit to the credit needy always depend upon the sound and systematic banking structure and it constitutes the first systematic planned efforts for overall economic development. A bank, though small but sound financially, is permitted to open branches.

A greater emphasis is laid on opening of branches in the rural and semi-urban areas. A stipulation is made applicable in operation of the branch expansion policy. For every two offices opened, after October 1971 in the rural or semi-urban centres in the case of banks which had more than 6 per cent of their offices in the above centres; one office each is to be opened in the urban and metropolitan centres; and in the case of other

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banks, one office each in the urban and metropolitan/port-town for every three offices is to be opened in the rural and semi-urban centres can be opened. Branch expansion has gained a sense of urgency and a problem of all India charter.

On January 1, 1977, a new Branch Expansion Policy came into being to cover up institutionally deficient rural and semi-urban centres. This policy stipulates that a bank will have to open four offices in the unbanked rural areas to get permission to open one in urban areas.

**Credit Policy**

The emphasis of credit policy prior to nationalization was on ensuring an uninterrupted flow of credit to the industrial concerns. Often, the political forums stirred to curb this class banking. A restructuring of credit policy during mid-sixties emerged for the agricultural sector, the reason being that the cooperatives preserved for agricultural credit could not cope up, due to introduction of high yielding varieties. Further, the credit needs of farm sector become more and more as the big farmers group shown interest to adopt the new capital-intensive farm technology.

A new credit policy, after nationalization, envisaging extension of banking facilities to priority and neglected sectors of economic significance on preferential terms and conditions has been framed. This new policy is aimed at:

- liberal credit to priority and neglected sector of economic significance, and
- Liberal credit to the projects in the backward areas and to help correct regional imbalances in the economy.
The envisaged credit policy has set the target and sub-targets for financing of specific purposes. Accordingly, the share of priority sector in total credit was 33.33 per cent of total bank net credit. Latter, it is modified to 40.00 per cent of the total bank net credit. The sub-target for agriculture has been fixed at 18.00 per cent of total bank net credit. A significant structural transaction has taken place in the sectoral distribution of credit. The share of the agriculture, small industry and the specific segments of priority sector have been stepped up. The anti-poverty programmes like, integrated Rural Development Programme (IRDP), Jawahar Rojgar Yojana (JRY), and Development of Women and Children in Rural Areas (DWCRA) etc., which have impressive economic impact, have actually been taken by banks into altogether new areas and shown a great degree of adaptability in catering the credit needs of such programmes.

The Government of India and Reserve Bank of India have not given any undertaking so far about watering down the importance of priority sector lending in response to recommendation of the Narasimham Committee. Contrary, the Government has asked the banks to support the expanding economy and pay special focus on the priority sector lending and the credit needs of the backward States and regions. The then Prime Minister in his address at the conference of Chief Ministers on Rural Development on October 8, 1992 stressed the urgency of formulating 'holistic' approach, which would accelerate economy of rural sector in the country.

There is no programme which is more important or urgent than that of rural development as far as India is concerned. This discerns that the
policy emphasis on priority sector is likely to continue; and perhaps, the
targets in this respect may not be tampered with or modified. Even, if
targets are modified in near or distant future, these may be altogether
dispensed.

Ownership and governance

The ownership structure of Regional Rural Banks has remained
unchanged since their inception.

NABARD, the supervisory authority, and the Reserve Bank of India,
the regulator, are closely associated with operations through their nominee
Directors. The District Development Manager (DDM) of NABARD from one of
the operational districts is on the Board and advises the Regional Rural
Bank on operational strategies on a regular basis. The other Directors also
play a role in decision-making but the operational leadership of the Regional
Rural Bank lies mainly with the Chairman, who is a deputed officer of the
sponsor bank.11

The sponsor banks – invariably the large public sector banks – were
entrusted with the role of guiding the Regional Rural Banks in banking
operations, a role that continues even 25 years after the establishment of
the first Regional Rural Banks. For this reason, the sponsor banks still also
depute a General Manager to each of the Regional Rural Banks to manage
day-to-day operations and supplement the banking skills of their nominated
Chairmen.12

11 Snjay Sinha, etal., "The Outreach/Viability Conundrum: Can India’s, Regional Rural
Banks Really? Serve Low-Income Clients?, Working paper 229, Overseas Development
12 Ibid.
At times, the non-official directors of the Regional Rural Banks who are political appointees in most cases are reported to display low interest levels and are guilty of espousing populist measures or even getting involved in staff-union issues of the bank. Overall, the governance structure in Regional Rural Banks is complicated because of the varied interest groups involved. 13

The performance of the major public sector banks as sponsors of Regional Rural Banks is summarised in Table 2.1. Whereas the State Bank of India (SBI) and its subsidiaries account for the largest share of business volumes and network the other sponsor bank of the sample Regional Rural Banks for this study, Syndicate Bank performs exceptionally well in financial performance and coverage in relation to its market share. It handles more business than its RRB share, and does so with a good focus on lending, portfolio quality and with excellent performance on overall profitability. 14 Further information on the performance of the sponsors of the sample Regional Rural Banks is provided in table 2.1.

13 Ibid.
14 Ibid.
Table 2.1
PERFORMANCE OF REGIONAL RURAL BANKS UNDER MAIN SPONSORS, MARCH 2001

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Particulars</th>
<th>State Bank of India (%)</th>
<th>SBI Subsidiaries (%)</th>
<th>Syndicate Bank (%)</th>
<th>Central Bank of India (%)</th>
<th>Punjab National Bank (%)</th>
<th>Bank of Baroda (%)</th>
<th>Total Regional Rural Banks (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Number of Regional Rural Banks (%)</td>
<td>15</td>
<td>9</td>
<td>5</td>
<td>12</td>
<td>10</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>2.</td>
<td>Advances Accounts (%)</td>
<td>18</td>
<td>5</td>
<td>11</td>
<td>8</td>
<td>7</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>3.</td>
<td>Deposits Accounts (%)</td>
<td>15</td>
<td>3</td>
<td>11</td>
<td>9</td>
<td>8</td>
<td>9</td>
<td>100</td>
</tr>
<tr>
<td>4.</td>
<td>Advances share (amount %)</td>
<td>14</td>
<td>5</td>
<td>16</td>
<td>7</td>
<td>8</td>
<td>8</td>
<td>100</td>
</tr>
<tr>
<td>5.</td>
<td>Deposits share (amount %)</td>
<td>13</td>
<td>4</td>
<td>9</td>
<td>11</td>
<td>10</td>
<td>9</td>
<td>100</td>
</tr>
<tr>
<td>6.</td>
<td>NPAs (weighted, %)</td>
<td>20</td>
<td>19</td>
<td>9</td>
<td>21</td>
<td>21</td>
<td>25</td>
<td>18</td>
</tr>
<tr>
<td>7.</td>
<td>C-D ratio (weighted, %)</td>
<td>42</td>
<td>67</td>
<td>73</td>
<td>28</td>
<td>31</td>
<td>37</td>
<td>41</td>
</tr>
<tr>
<td>8.</td>
<td>Profitability contribution (weighted, %)</td>
<td>13</td>
<td>5</td>
<td>20</td>
<td>5</td>
<td>13</td>
<td>6</td>
<td>100</td>
</tr>
<tr>
<td>9.</td>
<td>Number of Regional Rural Banks in current profit (% of sponsored REGIONAL RURAL BANKS)</td>
<td>83</td>
<td>100</td>
<td>100</td>
<td>87</td>
<td>89</td>
<td>84</td>
<td>88</td>
</tr>
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</table>

Source: NABARD (2001)

The State Bank of India sponsors the largest number of Regional Rural Banks in the country. It has been very actively involved in the development of Regional Rural Banks and has provided them with significant governance and management support. Regional Rural Banks sponsored by the State Bank of India account for 16 per cent of branches, 15 per cent of staff, 15 per cent of deposit accounts, 18 per cent of advances accounts and 16 per cent of borrowings of all the Regional Rural Bank...
branches in the country. Of the 30 State Bank of India sponsored Regional Rural Banks, 25 are currently earning a net profit – with nine having been able to wipe out their accumulated losses – whereas five are still incurring losses. The combined C-D ratio of all these Regional Rural Banks is 42 per cent, almost equal to the all-India weighted average of 41 per cent for March 2002. The combined NPA of the SBI-sponsored Regional Rural Banks at 20 per cent is somewhat higher than the national average.

The efficacy of Syndicate Bank’s support to its Regional Rural Banks is reflected in the performance of the sponsored banks. All ten Syndicate Bank-sponsored Regional Rural Banks are currently profitable and only one has residual cumulative losses. The Credit-Deposit ratio of these Regional Rural Banks averages 73 per cent and NPAs 9 per cent. This is in contrast to the all-India average for Regional Rural Banks: a C-D ratio of 41 per cent and NPAs of 18 per cent. While Syndicate Bank’s Regional Rural Banks make up 8 per cent of branches nationally, they manage 16 per cent of loans outstanding and are responsible for 20 per cent of net profits generated by all the Regional Rural Banks in the country.

**Operational policies**

The last decade has seen important policy initiatives in the banking sector in India, and has encouraged Regional Rural Banks to move from ‘social’ banking to more commercial operations. The biggest initiative has been the deregulation of interest rates that has, at least in theory, allowed banks to move towards pricing both in line with market trends and with

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their own delivery and financing costs. Other operational policy decisions that concern the operations of Regional Rural Banks are discussed in this subsection in the context of important policy measures that were taken—mostly for Regional Rural Banks as a whole—during the reform period of the 1990s.

**Lending to the non-priority sector (NPS)**

Lending from Regional Rural Banks was initially restricted to the priority sector and it was only in 1991 that this restriction was lifted. Since then, Regional Rural Banks have diversified into a range of non-priority sector (NPS) advances, including jewel- and deposit-linked loans, consumer loans and even home loans. This move has allowed banks to reduce exposure to agriculture and also to earn more from the higher interest rates on these products.

**Financial Viability of Regional Rural Banks**

The financial viability of Regional Rural Banks has engaged the attention of the policy makers from time to time. In fact, as early as 1981, the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) addressed the issue of financial viability of the Regional Rural Banks. The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development recommended that 'the loss incurred by a Regional Rural Bank should be made good annually by the shareholders in the same proportion of their shareholdings'. Though this recommendation was not accepted, under a scheme of recapitalisation, financial support was provided by the shareholders in the proportion of their shareholdings. Subsequently, a
number of committees have come out with different suggestions to address the financial non-viability of Regional Rural Banks. For instance, the Working Group on Regional Rural Banks (Kelkar Committee) in 1984 recommended that small and uneconomic Regional Rural Banks should be merged in the interest of economic viability. Five years down the line, in a similar vein, the Agricultural Credit Review Committee (Khusro Committee), 1989 pointed out that 'the weaknesses of Regional Rural Banks are endemic to the system and non-viability is built into it, and the only option was to merge the Regional Rural Banks with the sponsor banks. The objective of serving the weaker sections effectively could be achieved only by self-sustaining credit institutions'. The Committee on Restructuring of Regional Rural Banks, 1994 (Bhandari Committee) identified 49 Regional Rural Banks for comprehensive restructuring. It recommended greater devolution of decision-making powers to the Boards of Regional Rural Banks in the matters of business development and staff matters. The option of liquidation again was mooted by the Committee on Revamping of Regional Rural Banks, 1996 (Basu Committee).16

The Expert Group on Regional Rural Banks in 1997 (Thingalaya Committee) held that very weak Regional Rural Banks should be viewed separately and possibility of their liquidation be recognised. They might be merged with neighbouring Regional Rural Banks. The Expert Committee on Rural Credit, 2001(Vyas Committee I) was of the view that the sponsor bank should ensure necessary autonomy for Regional Rural Banks in their credit

and other portfolio management system. Subsequently, another committee under the Chairmanship of Chalapathy Rao in 2003 (Chalapathy Rao Committee) recommended that the entire system of Regional Rural Banks may be consolidated while retaining the advantages of regional character of these institutions. As part of the process, some sponsor banks may be eased out. The sponsoring institutions may include other approved financial institutions as well, in addition to commercial banks. The Group of CMDs of Select Public Sector Banks, 2004 (Purwar Committee) recommended the amalgamation of Regional Rural Banks on regional basis into six commercial banks - one each for the Northern, Southern, Eastern, Western, Central and North-Eastern Regions. Thus one finds that a host of options have been suggested starting with vertical merger (with sponsor banks), horizontal merger (amongst Regional Rural Banks operating in a particular region) to liquidation by different committees that have gone into the issue of financial viability and restructuring strategies for the Regional Rural Banks.\textsuperscript{17}

More recently, a committee under the Chairmanship of A.V Sardesai revisited the issue of restructuring the Regional Rural Banks (Sardesai Committee, 2005). The Sardesai committee held that ‘to improve the operational viability of Regional Rural Banks and take advantage of the economies of scale, the route of merger/amalgamation of Regional Rural Banks may be considered taking into account the views of the various stakeholders’. Merger of Regional Rural Banks with the sponsor bank is not provided in the RRB Act 1976. Mergers, even if allowed, would not be a

\textsuperscript{17} Ibid.
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 Regional Rural Banks as local entities and for providing credit primarily to weaker sections. Having discussed various options for restructuring, the Committee was of the view that ‘a change in sponsor banks may, in some cases help in improving the performance of Regional Rural Banks. A change in sponsorship may, inter alia; improve the competitiveness, work culture, management and efficiency of the concerned Regional Rural Banks’. Against this backdrop, a number of issues need empirical probing. Such as, which are the Regional Rural Banks that need focus and whether for them the sponsor bank has really to be made accountable. All these issues fall under the broader questions of what factors drive the performance of Regional Rural Banks? and do the sponsor banks have a role to play? Section II reviews the literature on factors affecting performance of a commercial bank in general and also in the context of Regional Rural Banks.\textsuperscript{18}

The Regional Rural Banks, over the years have made impressive strides on various business indicators. For instance, deposits of Regional Rural Banks have grown by 18 times and advances by 13 times between 1980 and 1990. Between 1990 and 2004, deposits and advances grew by 14 times and 7 times, respectively (Table 2.2). Between the year 2000 and 2004, loans disbursed by Regional Rural Banks more than doubled reflecting the efforts taken by the banks\textsuperscript{6} to improve credit flow to the rural sector. The average per branch advances also increased from Rs.25 lakh in March 1990 to Rs.154 lakh in March 2003. When one considers the

\textsuperscript{18} Ibid.
deployment of credit relative to the mobilisation of resources, the credit-deposit (C-D) ratio of Regional Rural Banks were more than 100 per cent during the first decade of their operations up to 1987. Though the C-D ratio subsequently became lower, of late, it has shown an improvement and went up from around 39 per cent in March 2000 to 44.5 per cent in March 2004.\textsuperscript{19}

## Table-2.2

**EVOLUTION OF REGIONAL RURAL BANKS : SELECTED INDICATORS**

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</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>No. of Regional Rural Banks</td>
<td>85</td>
<td>188</td>
<td>196</td>
<td>196</td>
<td>196</td>
<td>196</td>
<td>196</td>
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<td>196</td>
</tr>
<tr>
<td>2.</td>
<td>Capital</td>
<td>21</td>
<td>46</td>
<td>91</td>
<td>166</td>
<td>358</td>
<td>705</td>
<td>1,118</td>
<td>1,380</td>
<td>1,959</td>
<td>2,049</td>
<td>2,143</td>
<td>2,141</td>
<td>2,221</td>
</tr>
<tr>
<td>3.</td>
<td>Deposits</td>
<td>222</td>
<td>1,315</td>
<td>4,023</td>
<td>11,141</td>
<td>14,171</td>
<td>17,976</td>
<td>22,191</td>
<td>27,059</td>
<td>32,226</td>
<td>38,294</td>
<td>44,539</td>
<td>49,582</td>
<td>56,295</td>
</tr>
<tr>
<td>4.</td>
<td>Investments</td>
<td>20</td>
<td>164</td>
<td>60</td>
<td>1,348</td>
<td>2,879</td>
<td>3,891</td>
<td>5,280</td>
<td>6,680</td>
<td>7,760</td>
<td>8,800</td>
<td>9,471</td>
<td>17,138</td>
<td>21,286</td>
</tr>
<tr>
<td>5.</td>
<td>Advances</td>
<td>262</td>
<td>1,405</td>
<td>3,384</td>
<td>5,987</td>
<td>7,057</td>
<td>7,908</td>
<td>9,021</td>
<td>10,559</td>
<td>12,427</td>
<td>15,050</td>
<td>17,710</td>
<td>20,934</td>
<td>25,038</td>
</tr>
<tr>
<td>6.</td>
<td>Total Assets</td>
<td>426</td>
<td>2,320</td>
<td>6,081</td>
<td>14,886</td>
<td>18,969</td>
<td>24,376</td>
<td>29,468</td>
<td>35,820</td>
<td>42,236</td>
<td>49,596</td>
<td>56,802</td>
<td>62,500</td>
<td>70,195</td>
</tr>
<tr>
<td>7.</td>
<td>Interest Earned</td>
<td>NA</td>
<td>NA</td>
<td>480</td>
<td>1,158</td>
<td>1,421</td>
<td>2,033</td>
<td>2,624</td>
<td>3,281</td>
<td>3,938</td>
<td>4,619</td>
<td>5,191</td>
<td>5,391</td>
<td>5,535</td>
</tr>
<tr>
<td>8.</td>
<td>Other income</td>
<td>NA</td>
<td>NA</td>
<td>113</td>
<td>72</td>
<td>89</td>
<td>103</td>
<td>136</td>
<td>151</td>
<td>207</td>
<td>240</td>
<td>370</td>
<td>430</td>
<td>697</td>
</tr>
<tr>
<td>9.</td>
<td>Total income</td>
<td>NA</td>
<td>NA</td>
<td>593</td>
<td>1,230</td>
<td>1,511</td>
<td>2,136</td>
<td>2,760</td>
<td>3,432</td>
<td>4,145</td>
<td>4,859</td>
<td>5,561</td>
<td>5,821</td>
<td>6,231</td>
</tr>
<tr>
<td>10.</td>
<td>Interest expended</td>
<td>NA</td>
<td>NA</td>
<td>326</td>
<td>851</td>
<td>1,065</td>
<td>1,462</td>
<td>1,773</td>
<td>2,131</td>
<td>2,565</td>
<td>2,966</td>
<td>3,329</td>
<td>3,440</td>
<td>3,363</td>
</tr>
<tr>
<td>11.</td>
<td>Operating expenses</td>
<td>NA</td>
<td>NA</td>
<td>254</td>
<td>657</td>
<td>726</td>
<td>804</td>
<td>845</td>
<td>982</td>
<td>1,056</td>
<td>1,165</td>
<td>1,459</td>
<td>1,667</td>
<td>1,825</td>
</tr>
<tr>
<td>12.</td>
<td>Provisions and contingencies</td>
<td>NA</td>
<td>NA</td>
<td>120</td>
<td>171</td>
<td>673</td>
<td>72</td>
<td>99</td>
<td>96</td>
<td>128</td>
<td>163</td>
<td>132</td>
<td>289</td>
<td></td>
</tr>
<tr>
<td>13.</td>
<td>Total expenses</td>
<td>NA</td>
<td>NA</td>
<td>581</td>
<td>1,509</td>
<td>1,791</td>
<td>2,265</td>
<td>2,617</td>
<td>3,113</td>
<td>3,621</td>
<td>4,130</td>
<td>4,787</td>
<td>5,107</td>
<td>5,187</td>
</tr>
<tr>
<td>14.</td>
<td>Operating Profit</td>
<td>NA</td>
<td>NA</td>
<td>12</td>
<td>-279</td>
<td>-280</td>
<td>-129</td>
<td>143</td>
<td>319</td>
<td>524</td>
<td>729</td>
<td>774</td>
<td>714</td>
<td>1,044</td>
</tr>
</tbody>
</table>

**Note:** Total expenses are excluding provisions and contingencies.

**Source:** Reserve Bank of India.
The presence of Regional Rural Banks shows wide variation both across States and sponsor banks. Although Regional Rural Banks are spread over twenty-six States, they have most of their presence in seven States, *i.e.*, Andhra Pradesh, Bihar, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh. Uttar Pradesh has the highest number of Regional Rural Banks, *i.e.*, thirty-six and Kerala has got only two amongst the major States of the country (Table 2.2). The northeastern States like Manipur, Meghalya, Mizoram and Nagaland have got only one RRB. Like-wise, seven sponsor banks amongst twenty-eight, *viz.*, Bank of Baroda, Bank of India, Central Bank of India, Punjab National Bank, State Bank of India, United Bank of India and UCO bank account for more than three fifths of the Regional Rural Banks. More than 160 Regional Rural Banks earned profit in March 2004 while 150 Regional Rural Banks were found to be earning profits for three consecutive years beginning with the year 2000-01. More than half of these loss-making Regional Rural Banks are found to be operating in four States, *i.e.*, Bihar, Madhya Pradesh, Maharashtra and Orissa. Seen at the level of sponsor banks, three banks, *i.e.*, Bank of India, Central Bank of India and State Bank of India accounted for more than half of the loss making Regional Rural Banks.\(^{20}\)

\(^{20}\) Ibid.
Agriculture and Rural Credit at Present

The goal of Union Government to double the flow of farm credit in three years [2004-05 to 2006-07] was achieved in two years. Actual flow of credit during the year 2006-07 is expected to exceed the target of Rs.1,750,000 million set for the year by Rs. 150,000 million. During April to December 2006, around 5,337,000 new farmers, as against target of five million, were linked with the institutional credit system. For the year 2007-08, target of farm credit disbursement has been fixed at Rs.2,250,000 million[28.6 per cent over target of 2006-07] and an addition of five million new farmer-borrowers. Performance of public sector banks in particular, along with their sponsored Regional Rural Banks, has indeed been satisfactory in increasing flow of credit to farm sector, improving recovery and containing overdues and NPAs. Their involvement in financing weaker sections of the society and beneficiaries under Differential Interest Rate has also improved. However, the share of institutional credit declined to 57 per cent in 2001 as compared to 64 per cent in 1991. Moreover, debt sourced from money lenders, the very informal agents the institutionalization of credit was designed to replace, increased in overall share of rural debt from nearly 18 per cent in 1991 to nearly 30 per cent in 2001.

According to recent Survey, formal institutional credit provision in India now accounts for just 27 per cent of total cultivator debt and that this reduces to just 20 per cent. Moreover, nearly 90 per cent of
households reporting no debt, either formal or informal are headed by small & marginal farmers suggesting institutional rather than self-exclusion. Intriguingly, Andhra Pradesh, the State with the highest concentration of SHGs, MFIs and banks, reports the highest proportion of rural non-institutional debt [nearly 73 per cent] and the highest proportion of rural money lender debt [nearly 57 per cent] for all States in India, according to All India Debt & Investment Survey, 1991 and 2001. It is in this context an attempt is made here to analyse the data on the performance of banks, more importantly public sector banks, and appreciate the immediate need to create enabling environment that can facilitate banks to [i] expand outreach especially in remote locations to cover small, marginal and tenant farmers, share croppers, oral lesees, landless labourers and households residing in dryland, desert, drought prone, hilly and tribal areas of the country [ii] understand the new and diversified demand for rural financial products and services emerging in the changed rural socio-economic scenario and meet them [iii] introduce improvements in operational management, HRM and Training policy for rural areas; reducing transaction costs and mitigating portfolio risk on a continuing basis and [iv] pursue rural finance research and development tasks. The details of form credit disbursements by Co-operatives, Commercial Banks and Regional Rural Banks are shown in table 2.3.
**Table – 2.3**

**FARM CREDIT DISBURSEMENTS BY COOPERATIVE, COMMERCIAL AND REGIONAL RURAL BANKS [2001-02 TO 2005-06]**

(Rs. in Million)

<table>
<thead>
<tr>
<th>S.No</th>
<th>Year</th>
<th>Co-op.Banks</th>
<th>Com.Banks</th>
<th>RRBs</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>2001-02</td>
<td>235,240</td>
<td>335,870</td>
<td>48,540</td>
<td>800</td>
<td>620,450</td>
</tr>
<tr>
<td></td>
<td></td>
<td>[37.91]</td>
<td>[54.13]</td>
<td>[7.82]</td>
<td>[0.14]</td>
<td>[100]</td>
</tr>
<tr>
<td>2.</td>
<td>2002-03</td>
<td>236,360</td>
<td>397,740</td>
<td>60,700</td>
<td>800</td>
<td>695,600</td>
</tr>
<tr>
<td></td>
<td></td>
<td>[34.00]</td>
<td>[57.18]</td>
<td>[8.72]</td>
<td>[0.10]</td>
<td>[100]</td>
</tr>
<tr>
<td>3.</td>
<td>2003-04</td>
<td>268,750</td>
<td>524,410</td>
<td>75,810</td>
<td>840</td>
<td>869,810</td>
</tr>
<tr>
<td></td>
<td></td>
<td>[30.91]</td>
<td>[60.29]</td>
<td>[8.71]</td>
<td>[0.09]</td>
<td>[100]</td>
</tr>
<tr>
<td>4.</td>
<td>2004-05</td>
<td>312,310</td>
<td>814,810</td>
<td>124,040</td>
<td>1,930</td>
<td>1,253,090</td>
</tr>
<tr>
<td></td>
<td></td>
<td>[24.92]</td>
<td>[65.02]</td>
<td>[9.91]</td>
<td>[0.15]</td>
<td>[100]</td>
</tr>
<tr>
<td>5.</td>
<td>2005-06</td>
<td>372,520</td>
<td>1,061,520</td>
<td>140,760</td>
<td>NA</td>
<td>1,574,800</td>
</tr>
<tr>
<td></td>
<td></td>
<td>[23.65]</td>
<td>[67.41]</td>
<td>[8.94]</td>
<td>[*]</td>
<td>[100]</td>
</tr>
<tr>
<td>6.</td>
<td>Total</td>
<td>1,425,180</td>
<td>3,134,350</td>
<td>449,850</td>
<td>4,370</td>
<td>5,013,750</td>
</tr>
<tr>
<td></td>
<td></td>
<td>[28.42]</td>
<td>[62.52]</td>
<td>[8.97]</td>
<td>[0.09]</td>
<td>[100]</td>
</tr>
</tbody>
</table>

*Figures in brackets indicate % share to total  * Provisional figures

Farm credit disbursements progressively increased from Rs. 620,450 million in 2001-02 to Rs. 1,574,800 million in the year 2005-06 reflecting rise by 153.8 per cent. Commercial banks and Regional Rural Banks recorded phenomenal rise by 216 per cent and 189 per cent respectively as compared to 58 per cent by cooperatives. While there has been progressive rise in each successive year in case of cooperatives, commercial and regional rural banks, there has been spectacular increase during 2004-05 and 2005-06 in respect of commercial banks and Regional Rural Banks. The share of cooperatives in the total disbursements of short-term & long-term credit progressively declined from 37.9 per cent in 2001-02 to 23.65 per cent in 2005-06 whereas that of commercial banks recorded progressive increase from 54.13 per cent to 67.41 per cent during the corresponding years. Regional Rural Banks accounted for 7.82 per cent in 2001-02 which progressively rose to 9.91
per cent in 2004-05 but declined by one percentage point in the following year. Agriculture credit flow for the banking system as a whole during 2005-06 has surged to Rs 1,804,860 million, reflecting 128 per cent of the target of Rs 1,410,000 million that was set for that year.\textsuperscript{21} Outstanding credit on agriculture by Public Sector and Private Banks is shown in table 2.4.

Table – 2.4
AGRICULTURE OUTSTANDING CREDIT BY PUBLIC SECTOR & PRIVATE SECTOR BANKS [31st March, 2000 to 31st March, 2006]

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Year</th>
<th>Agriculture</th>
<th>Agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Public sector banks</td>
<td>Private banks</td>
</tr>
<tr>
<td>1.</td>
<td>2000</td>
<td>452,960 [14.3%]</td>
<td>40,230 [8.3%]</td>
</tr>
<tr>
<td>2.</td>
<td>2001</td>
<td>523,710 [15.7%]</td>
<td>56,340 [9.6%]</td>
</tr>
<tr>
<td>3.</td>
<td>2002</td>
<td>581,420 [14.8%]</td>
<td>65,810 [8.5%]</td>
</tr>
<tr>
<td>4.</td>
<td>2003</td>
<td>705,010 [14.5%]</td>
<td>99,240 [10.9%]</td>
</tr>
<tr>
<td>5.</td>
<td>2004</td>
<td>844,350 [15.1%]</td>
<td>147,300 [14.2%]</td>
</tr>
<tr>
<td>6.</td>
<td>2005</td>
<td>1,099,170 [15.3%]</td>
<td>216,360 [12.3%]</td>
</tr>
<tr>
<td>7.</td>
<td>2006</td>
<td>1,549,000 [15.2%]</td>
<td>361,850 [13.5%]</td>
</tr>
</tbody>
</table>

Figures in bracket indicates % to Net Bank Credit

Agricultural advances of public sector banks during the period rose by 242 per cent from Rs.452,960 million to Rs.1,549,000 million whereas that of private sector banks increased significantly by 799 per cent from Rs.40,230 million to Rs.361,850 million during the period.

Share of agricultural advances in the net bank credit by public sector banks ranged between 14.3 per cent and 15.7 per cent whereas that of private sector banks varied from 8.3 per cent to 14.2 per cent during the period. Neither public sector banks nor private sector banks as a group could achieve targeted agricultural credit of 18 per cent of net bank credit. Recovery of Agriculture loans by public sector banks are shown in table 2.5

Table – 2.5
RECOVERY OF DIRECT AGRICULTURE LOANS BY PUBLIC SECTOR BANKS DURING 2000-01 TO 2005-06

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Year</th>
<th>Demand</th>
<th>Recovery</th>
<th>Overdue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>2000-01</td>
<td>224,290</td>
<td>155,400 [69.3%]</td>
<td>68,890 [30.7%]</td>
</tr>
<tr>
<td>2.</td>
<td>2001-02</td>
<td>245,610</td>
<td>177,580 [72.3%]</td>
<td>68,030 [27.7%]</td>
</tr>
<tr>
<td>3.</td>
<td>2002-03</td>
<td>289,400</td>
<td>210,110 [72.6%]</td>
<td>79,300 [27.4%]</td>
</tr>
<tr>
<td>4.</td>
<td>2003-04</td>
<td>335,440</td>
<td>250,020 [74.5%]</td>
<td>85,420 [25.5%]</td>
</tr>
<tr>
<td>5.</td>
<td>2004-05</td>
<td>351,920</td>
<td>296,120 [84.1%]</td>
<td>55,800 [15.9%]</td>
</tr>
</tbody>
</table>

Public sector banks recovery to demand under direct agricultural advance was 69.3 per cent during the year 2001 which gradually increased during following three years. It, however, phenomenaly rose to 84.1 per cent in the year 2005. During the five year period the demand, loan amount to be recovered and percentage of recovery to demand have progressively increased in the successive years whereas over due amount
has increased until the year 2004 and then it steeply declined by Rs.29,620 million in the following year.

As on 31st March 2005 aggregate recovery of 196 Regional Rural Banks was 79.8 per cent and that of 20 State Cooperative Agricultural & Rural Development Banks [SCARDBs] was 43.7 per cent; 727 Primary Cooperative Agricultural & Rural Development Banks [PCARDBs] at 50.6 per cent, 31 State Cooperative Banks [SCBs] at 83.47 per cent and 367 District Central Cooperative Banks [DCCBs] at 71.23 per cent.

**Enabling Environment**

In order to encourage Rural Financial Institutions to play catalytic role in lubricating the process of both farm sector development and rural rejuvenation at a time when the country has launched its 11th Five Year Plan [2007-08 to 2011-12], enabling environment needs to be created specifically in the areas of removal of urban-biased policies, sound agricultural & rural development policies, promotion of broad-based rural financial sector reforms and development of effective legal system to enforce contracts, sound interest rate policies, and appropriate legal status and prudential regulation of Rural Financial Intermediaries etc.

**Conclusion**

In 2000, over seventy percent of India's population, and roughly three quarters of its poor, lived in rural areas. The main livelihood in rural India remains agriculture, an activity characterized by significant time-lags in production and a high degree of sensitivity to weather
conditions. These features of agricultural production make access to financial instruments critical to a rural household’s ability to smooth income shocks and make long-term productive investments. However, as is well known lenders’ inability to perfectly identify the credit-worthiness of potential borrowers and the cost of enforcing repayment places severe restrictions on rural households’ access to credit. These problems are potentially more severe for the rural poor who are less able to reduce lender risk by providing collateral. This also has implications for the geographical distribution of formal credit lenders. Anticipating insufficient profits, lenders such as commercial banks, may choose not to set up branches in relatively poor rural areas. This, in turn, by giving lenders in the informal sector monopoly power may further raise the interest rates faced by the rural poor and restrict their access to affordable credit. Banerjee (2004) provides evidence that informal interest rates in India are high and exhibit significant variation.

The institution of Regional Rural Banks was created to meet the excess demand for institutional credit in the rural areas, particularly among the economically and socially marginalised sections. Although the cooperative banks and the commercial banks had reasonable records in terms of geographical coverage and disbursement of credit, in terms of population groups the cooperative banks were dominated by the rural rich, while the commercial banks had a clear urban bias. In order to provide access to low-cost banking facilities to the poor, the Narasimham
Working Group (1975) proposed the establishment of a new set of banks, as institutions which "combine the local feel and the familiarity with rural problems which the cooperatives possess and the degree of business organization, ability to mobilize deposits, access to central money markets and modernized outlook which the commercial banks have". The multi-agency approach to rural credit was also to sub-serve the needs of the input-intensive agricultural strategy (Green Revolution) which had initially focused on 'betting on the strong' but by the mid-seventies was ready to spread more widely through the Indian countryside. In addition, the potential and the need for diversification of economic activities in the rural areas had begun to be recognized, and this was a sector where the Regional Rural Banks could play a meaningful role.

Inception of Regional Rural Banks can be seen as a unique experiment as well as experience in improving the efficacy of rural credit delivery mechanism in India. With joint share holding by Central Government, the concerned State Government and the sponsoring bank, an effort was made to integrate commercial banking within the broad policy thrust towards social banking keeping in view the local peculiarities. The genesis of the Regional Rural Banks can be traced to the need for a stronger institutional arrangement for providing rural credit.
The regional rural banks shall carry on and transact business of banking as defined in clause (b) of Section 5 of the Banking Regulations Act, 1949; and may engage in one or more forms of business specified in Sub-section (1) of Section 6 of the Regional Rural Banks Act. They grant production as well as development credit.

The management of regional rural bank is vested in a nine member Board of Directors headed by its chairman. It is the highest-level body in the organizational hierarchy of management. The Board of Directors normally acts on business principles and safeguards the interests of public.

The premier institute, Reserve Bank of India is a policy-making body and is an organization of higher control. Policy may be basic or general. A basic policy guides the executive management in its conduct. Koontz and O' Donnel have described the policy as “a general statement or understanding which guides or implied overall guide the setting up boundaries that supply the general limits and direction in which managerial actions take place.”

A new credit policy, after nationalization, envisaging extension of banking facilities to priority and neglected sectors of economic significance on preferential terms and conditions has been framed.

The Regional Rural Banks, over the years have made impressive strides on various business indicators. For instance, deposits of Regional Rural Banks have grown by 18 times and advances by 13 times between
1980 and 1990. Between 1990 and 2004, deposits and advances grew by 14 times and 7 times, respectively. Between the year 2000 and 2004, loans disbursed by Regional Rural Banks more than doubled reflecting the efforts taken by the banks to improve credit flow to the rural sector. The average per branch advances also increased from Rs.25 lakh in March 1990 to Rs.154 lakh in March 2003. When one considers the deployment of credit relative to the mobilisation of resources, the credit-deposit (C-D) ratio of Regional Rural Banks were more than 100 per cent during the first decade of their operations up to 1987. Though the C-D ratio subsequently became lower, of late, it has shown an improvement and went up from around 39 per cent in March 2000 to 44.5 per cent in March 2004.

The presence of Regional Rural Banks shows wide variation both across States and sponsor banks. Although Regional Rural Banks are spread over twenty-six States, they have most of their presence in seven States, i.e., Andhra Pradesh, Bihar, Karnataka, Madhya Pradesh, Maharastra, Rajasthan and Uttar Pradesh. Uttar Pradesh has the highest number of Regional Rural Banks, i.e., thirty-six and Kerala has got only two amongst the major States of the country. The north-eastern States like Manipur, Meghalya, Mizoram and Nagaland have got only one RRB. Like-wise, seven sponsor banks amongst twenty-eight, viz., Bank of Baroda, Bank of India, Central Bank of India, Punjab National Bank, State Bank of India, United Bank of India and UCO bank account for
more than three fifths of the Regional Rural Banks. More than 160 Regional Rural Banks earned profit in March 2004 while 150 Regional Rural Banks were found to be earning profits for three consecutive years beginning with the year 2000-01. More than half of these loss-making Regional Rural Banks are found to be operating in four States, i.e., Bihar, Madhya Pradesh, Maharashtra and Orissa. Seen at the level of sponsor banks, three banks, i.e., Bank of India, Central Bank of India and State Bank of India accounted for more than half of the loss making Regional Rural Banks.

Agricultural advances of public sector banks during the period rose by 242 per cent from Rs.452,960 million to Rs.1,549,000 million whereas that of private sector banks increased significantly by 799 per cent from Rs.40,230 million to Rs.361,850 million during the period. Share of agricultural advances in the net bank credit by public sector banks ranged between 14.3 per cent and 15.7 per cent whereas that of private sector banks varied from 8.3 per cent to 14.2 per cent during the period. Neither public sector banks nor private sector banks as a group could achieve targeted agricultural credit of 18 per cent of net bank credit.

Public sector banks recovery to demand under direct agricultural advance was 69.3 per cent during the year 2001 which gradually increased during following three years. It, however, phenomenaly rose to 84.1 per cent in the year 2005. During the five year period the demand,
loan amount to be recovered and percentage of recovery to demand have progressively increased in the successive years whereas overdue amount has increased until the year 2004 and then it steeply declined by Rs. 29,620 million in the following year.

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