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ROLE OF REGIONAL RURAL BANKS IN INDIA

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ABSTRACT

The establishment of regional rural banks in India marks another important landmark in the banking history of the country. The RRBs were setup in 1975 as the 'poor man's bank' or 'low cost banks' to supplement the efforts of cooperative and commercial banks. The RRBs since then have passed through various phases and now have been recognized as integral part of rural credit delivery system in the country. The financial sector reforms that were introduced aimed at transforming the financial institutions including RRBs into organizationally strong, financially viable and operationally efficient units. The various measures and policy initiatives like income recognition, asset classification, allowing non-target group financing, recapitalization and restructuring and linking of SHGs etc. have been taken in this respect. The impact of these measures on working operations of RRBs has shown positive results.

Keywords: Credit, RBI, NACF, Sponsored Bank, NABARD, RRBs Act.

Introduction

Banking activities are an important link among the various economic activities and that have to play a vital role. India is agriculture—based country where more than 60% of the people live in rural area, and only depend on agriculture. Initially commercial banks had opened their branches in rural areas to provide agriculture finance, but failed to fulfil the objectives with which they were brought in the field. It was observed that commercial banks in rural area, instead of providing credit facility to poor, concentrated upon the big landholders and mobilize the savings of richer sections of the society. Consequently, it was felt that the specialized financial institutions should be established to mobilize the savings and to meet the financial needs of rural people. Accordingly, as per the recommendations of Narasimhan Committee, first five Regional Rural Banks (RRBs) were established on 2nd October 1976, with the objective to ensure sufficient institutional credit for agriculture and other rural sectoRs The RRBs mobilize savings from rural/semi urban areas and grant loans and advances to small, marginal farmers, agricultural labourers and rural artisans. These banks instil banking habits among the rural people, provide capital assistance to targeted group and made banking service made accessed by rural poor. RRBs jointly owned by Government of India, State government and sponsor banks. The capital of RRBs subscribed by the owner in the proportion of 50:15:35 respectively.

Objectives of the Study

- To study role of the regional rural banks in rural development of India.
- The overview the working of the regional rural banks in rural development of India.
- To observe the role of central government in successful working of the regional rural banks in India.
- To study the role of NABARD in operations of regional rural banks in India.

Research Methodology and Collection of Data

The present research study is depending upon on secondary data. The secondary data is gathered through different types of books and records of the regional rural banks. The previous research articles, reference books also used for collection of secondary data.

Scope and Limitations of the Study

This research study is taken on role of the regional rural banks in the development of rural India. The majority part of the research work is depends upon secondary data. Financial data is not applied in this research work.

Over the years, RRBs emerged as a key rural financial institution in terms of geographical coverage, clientele outreach and business volume. From a modest beginning of 6 RRBs with 17 branches covering 12 districts in December 1975, the number of RRBs has grown into 196 RRBs with 14,446 branches working in 518 districts across the country in March 2005. The rural orientation of RRBs is evident from the fact that their rural and semi-urban branches constituted over 95 percent of their branch network. The high-powered Committee on the Financial System was constituted by GOI to examine all the aspects relating to the structure, organization, functions and procedure of the financial system (Narasimham Committee, 1998) underscored the commendable progress made by the Indian banking sector in extending its geographical spread and its function/operations and thereby promoting financial intermediation and growth in the economy.

However, the committee cautioned that unless the deterioration in the financial system was treated quickly, it could further erode the real value of and end return on the savings entrusted to it and even have an adverse impact on depositor's and investor's confidence. In addition, possibly, financial repression involving state-owned banks was not in harmony with agenda of real sector reforms that the GOI unleashed in the aftermath of the balance of payment crises of 1991. (RBI), therefore, initiated reform of the banking sectors in 1992 based on the recommendations of Narasimham Committee. As a part of the downsizing process of the public sector organizations, the GOI in consultation with sponsor banks and the National Bank for Agriculture and Rural Development (NABARD) took a decision to amalgamate the 196 RRBs. The process of amalgamation resulted into reduction in number of RRBs from 196 RRBs to 89 RRBs in March 2008. As a result of amalgamation of RRBs, due to amalgamation this count came to 56 as by March 2016 covering 644 districts having 20904 branches. It is clear that due to amalgamation process on the first hand the number of RRBs are reduced but on the second hand the number of branches are increased across the country. It is predicted that RRBs might get amalgamated in the coming future. At present there are 56 RRBs in India. As on March 2016, of the total RRBs, 51 were profit- making while the remaining Five had registered losses.

Amalgamation

In order to improve the operational viability of RRBs in India and take the advantage of economies of scale, the advisory committee under the chairmanship of V. S. Vyas was formed.

The internal working group on RRBs was set up by the RBI to examine the various alternatives available within the legal framework for strengthening the RRBs in consultation with NABARD and concerned state government. To reposition RRBs as an effective instrument of credit delivery in Indian financial system, the committee had suggested structural consolidation of RRBs (Amalgamation).

Since 2005, a committee under the chairmanship of Prof. A.V. Sardesai held that to improve the operational viability of RRBs and take the advantage of economies of scale amalgamation may be of two ways:

1) Amalgamation between the RRBs of the sponsor bank in the same state (Horizontal Merger).
2) Amalgamation of RRBs with sponsor bank in the same state (Vertical Merger).

According to this the first way was followed in 2005. As result of this the number of RRBs reduced to 133 from 196 and expected to cover wider area, more small and marginal farmers, landless labourers and rural artesian.

Role of the Central Government

The main role of the Government of India as per the provisions of the RRBs Act can be summarized as follows.

a) The Government of India subscribed 50 percent to the paid up share capital of the RRBs.
b) The establishment of RRB, location of its head office etc. is decided by the Government of India in consultation with the sponsor bank. In practice, the state government is also consulted in this regard.
c) The Government of India can nominate three directors of the board of the RRBs. In practice, it appoints an officer each from NABARD and RBI as its nominee directors. The third director is a non-official person.
d) Chairman of the RRB is appointed by the Central Government (Section 11). Presently, the chairman is appointed from the panel of officers recommended by the sponsor bank for the purpose.
e) The remuneration of the officers and other employees appointed by RRBs is determined by the Central Government with due regard to the salary structure of the employees of the

state government and local authorities of comparable level and status in the notified areas of the RRB.

f) The Central Government, after consultation with RBI and sponsor bank, and by notification in the official gazette, is empowered to make rules for carrying out the provisions of the RRBs Act, 1976.

g) The Central Government is empowered to give directions, after consultation with the Reserve Bank, to an RRB in regard to matters of policy involving public interest.

h) The Central Government has to give the approval for the appointment of auditors for the statutory audit of the RRBs annual accounts. Prior approval of the Central Government is also required for remuneration to be given to the statutory auditors of RRBs.

i) The regulations made by the Board of Directors, as per the provisions of the RRBs Act, require previous sanction of the Central Government before they are implemented.

Role of NABARD

The RRBs Act was enacted in 1976 when NABARD was not in existence. As a result, in the RRBs Act, there is no mention of NABARD. Since RRBs deal with rural credit and since institutions dealing in rural credit are the concern of NABARD, the responsibility of overseeing the overall functioning of RRBs devolves on NABARD. The Government of India has recently issued instructions to RRBs that all matters pertaining their functioning interpretations relating the circulars earlier issued by Government of India etc. may be referred to NABARD and not to the Government of India. The newly constituted state level coordination committee (SLCC), has been constituted and NABARD has been made the convener instead of the oldest RRB in the state, which was the practice earlier. The committee would be reviewing the progress made by RRBs in the state so as to suggest remedial measures. NABARD has also been made the convener of the newly formed forum at the state level in each state to discuss and thrash out problems relating to RRB staff matters. With the convenorship of these two committees and the proposed legislation arming NABARD with statutory powers over RRBs, NABARD would be better equipped to play its role.

Role of RBI The statutory powers regarding the maintenance of statutory Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), branch licensing are still vested with the RBI. The function regarding the scheduling of RRBs was also watching the obligations under section 42 of the RBI Act remains with RBI. It is empowered to call for returns from RRBs as laid-down in the Banking Regulation Act. It can give directions to the RRBs under the provisions of the B.R. Act, on rates of interest to be charged on loans and advances, on rates of interest payable on deposits and on regulation of advances. The RRBs Act, 1976, as it exists today, has also empowered the RBI in the following matters.

i. The head office of an RRB is notified by the central government after consultation with the RBI and the sponsor bank.
ii. The authorized and paid-up capital of an RRB can be increased or reduced by the central government in consultation with the reserve bank, the concerned state government and the sponsor bank.
iii. The Central Government is empowered to give directions to the RRB is regard to matters of policy involving public interest in consultation with the RBI.
iv. The Central Government may, after consultation with RBI and sponsor bank, by notification in the official gazette, make rules for carrying out the provisions of the RRBs Act.
v. The Board of Directors of RRB may, after consultation with the sponsor bank and the reserve bank, and with the previous sanction of the central government, make regulations to provide for matters for which provision is necessary or expedient for the purpose of giving effect to the provisions of the RRBs Act

Conclusion

It has been the practice of the Government of India to consult the respective state government in the matter of establishment of the new RRBs, their location and their names. State governments are entitled to nominate two of its officials on the Board of Directors of the RRBs. It is through such nomination that the local aspirations of the people are made known to the RRBs. As the shareholder, the state government is also entitled to receive, within the stipulated period, the annual report and balance sheet of the RRB. RRBs are still in the process of Amalgamation and Consolidation 25 RRBs have been merged into 10 RRBs till January 2013 the mergers took place in States were Bihar, Karnataka, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and Uttarakhand. There were 64 RRBs till the first week of June 2013, due to amalgamation this count came to 56 as by March 2016 covering 644 districts having 20904 branches. It is clear that due to amalgamation process on the first hand the number of RRBs are reduced but on the second hand the number of branches are increased across the country. It is predicted that RRBs might get amalgamated in the coming future. At present there are 56 RRBs in India. As on March 2016, of the total RRBs, 51 were profit- making while the remaining Five had registered losses. In order to enhance the capital base of RRBs, the government on the proposal of a panel headed by RBI Deputy Governor K C Chakrabarty decided to recapitalize 40 selected RRBs in 21 states.

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