ESTIMATES COMMITTEE

(2002-2003)

(THIRTEENTH LOK SABHA)

SIXTEENTH REPORT

MINISTRY OF FINANCE AND COMPANY AFFAIRS
(DEPARTMENT OF ECONOMIC AFFAIRS –
BANKING DIVISION)

REGIONAL RURAL BANKS

Presented to Lok Sabha on 29.04.2003

LOK SABHA SECRETARIAT
NEW DELHI

April , 2003/Chaitra, 1925 (S)

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(2002-2003)

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2.	Shri A.K. Singh	-	Principal Chief Parliamentary Interpreter
3.	Shri Cyril John	-	Under Secretary
4.	Shri N.C. Gupta	-	Assistant Director

INTRODUCTION

I, the Chairman of the Estimates Committee having been authorised by the Committee to submit the report on their behalf present this Sixteenth Report on the Ministry of Finance and Company Affairs (Department of Economic Affairs – Banking Division) – 'Regional Rural Banks'.

2. The subject was selected for detailed examination by the Estimates Committee (2000 -2001). The Estimates Committee took evidence of the representatives of the Ministry of Finance and Company Affairs (Department of Economic Affairs – Banking Division) on 6.8.2003. During the Study Tours the Committee held discussions with representatives of 65 RRBs to get first hand information about the functioning of the banks. The Committee wish to express their thanks to the officers of the Ministry for placing before them the detailed written notes on the subject and for furnishing information desired in connection with the examination of the subject. The Committee also appreciate the frankness with which the officers of the Ministry of Finance and Company Affairs, RBI, NABARD and RRBs shared their views, perceptions and constraints with the Committee.

The Committee would also like to express their gratitude to the Estimates Committee 2000-2001 and 2001-2002 for the able guidance and right direction provided by them in obtaining information for indepth and comprehensive study of the subject.

3. The Report was considered and adopted by the Committee at their sitting held on 24th April, 2003.

4. The Report is divided into three chapters. The Committee have inter alia made the following important observations/recommendations:

(i) A thorough review of the RRB Act should be undertaken and necessary amendments incorporated keeping in view the original mandate given to the institution, their present status, the performance of the banks over the years and also the present needs of the rural masses.

(ii) Provisions of Section 10 of the RRB Act, 1976 regarding the tenure of non-official Directors be suitably amended to ensure that their term does not exceed four years in normal circumstances.

(iii) The number of State nominees in RRB Board should be reduced from two to one and the strength of sponsor bank's nominee directors be increased from 2 to 3 to enable the sponsor banks to monitor the working of RRBs closely. RRB Board should follow up inter alia the observations made in the inspection/audit reports, grievances of clients, accountability of staff, new initiatives taken by the bank, etc.

(iv) Only officers having at least five years of service left should be considered for appointment to the post of Chairman of RRB. Officers on the verge of retirement, having adverse report or any adverse comment from vigilance/administration should not be considered for the post of Chairman. The appointment should invariably be for a term of minimum three years and not exceeding five years.

(v) Measures should be initiated for computerisation and office automation in RRBs in a time bound and phased manner. In view of the present rapid technological and economic changes, an in-built mechanism should be evolved to ensure review of the organisational structure and staffing pattern of RRBs in a span of ten to fifteen years.

(vi) In RRBs which are making absolute profit, the CD ratio should be as high as 75%. In RRBs which are making profits but still have accumulated losses, an increasing trend of CD ratio should be ensured and their investment portfolio should get reduced accordingly.

(vii) Reserve Bank of India should review the trend of ID ratio among the RRBs and certain restrictions should be imposed on those

RRBs which have eliminated the accumulated losses, but are still focussing on the investment route with low CD ratio. The option of investment portfolio should not be allowed to go on for a longer period as it encroaches on rural lending. The investment portfolio should be resorted to at a minimum level and for a short period of time to make a particular RRB viable and after that they should revert back to lending portfolio.

(viii) RRBs should make concerted efforts to educate the weaker sections of the society about the benefits of various lending schemes available to enable them to avail full benefit of the credit facilities. The RBI, NABARD and sponsor banks should keep a close watch on the performance of the RRBs to ensure extending of credit facilities to the weaker sections of society.

(ix) Existing guidelines on charging of interest should be circulated by the RBI to all the RRBs and their sponsor banks stipulating strict compliance. NABARD should issue specific instructions to all its Regional Offices directing them to compile information regarding violation of the guidelines by the RRBs in the region and do the necessary follow-up to ensure that compound interest charged from loanees in violation of the guidelines in all cases is refunded to them under intimation to NABARD.

(x) NABARD, sponsor banks and the RRBs should formulate plans for computerisation of RRBs . NABARD should take a lead in preparation of the plans in such a manner that computerisation is completed within a period of three years.

(xi) RRBs should seriously address the question of reduction of NPAs through well defined policies and strategies.

(xii) Circumstantial defaulters need to be dealt with separately from willful defaulters. If there is drought for three years continuously, then it should be mandatory on the bank to help the loanee by rephasing the old loans after waiving the interest component, providing fresh loans and also by making available new technologies suiting to agroclimatic conditions.

(xiii) For speedy recovery of long-standing dues, Special Recovery Officers should be designated for RRBs. Scheme of One Time Settlement for NPAs in RRBs should be encouraged for expeditious settlement of pending cases under litigation and compromise settlement in old and chronic NPA accounts.

(xiv) Regulatory and supervisory authorities above RRBs should ensure that their guidelines are scrupulously followed by RRBs and any non-adherence of the guidelines or irregularity noticed should warrant serious action against the delinquent officials.

(xiv) Following steps may also be taken to check frauds in RRBs:-

(a) As soon as a fraud or any irregularity comes to notice, the suspected official(s) should be rendered innocuous the same day.

(b) Bank should move fast and get all the records under its control in order to minimise the chances of tampering with or destroying the records.

(c) Delinquent officials found guilty should be awarded deterrent punishment including imprisonment.

(d) A system of group accountability should be evolved i.e. both clerical and officer level employees connected with the area of fraud should be held responsible for irregularity/fraud and awarded suitable punishment.

(e) Disciplinary action should be taken invariably for any kind of laxity or negligence shown in the observance of laid down procedure.

(f) Where CBI enquiry is warranted, banks should keep a copy of the records for simultaneous departmental enquiry.

(g) In case of complicity or where proved negligence is involved, lenient view should not be taken by merely reducing/stopping of increment or allowing the delinquent official(s) to resign or to retire.

(xvi) NABARD should conduct inspection of RRBs once in a year instead of two years. The supervisory authority should develop a set of model internal audit and inspection guidelines through a consultative process. Based on this model, the RRBs should frame a manual of guidelines for the internal inspection of their branches that may encompass the contents, coverage, periodicity, reporting, compliance, follow up action in case of non-compliance, etc. These guidelines must cover all aspects of the functioning of the RRBs including inter alia the general audit, concurrent audit, revenue audit, management functions at the level of Head Office, Chairman and even the Board.

(xvii) With a view to curbing unhealthy practices as also to give exposure to the employees of RRBs by posting them in different places, there is an imperative need for periodical transfer of employees.

For facility of reference, the observations/recommendations of the Committee have been printed in bold type in the body of the report and have also been reproduced in consolidated from in the Appendix.

New Delhi
<u>April, 24, 2003</u>
Vaisakha 4, 1925(S)

UMMAREDDY VENKATESWARLU,
Chairman,
Committee on Estimates.

CHAPTER – I

Historical Background

1.1 Institutional support to the agricultural credit requirements in rural India came into being with the setting up of cooperative credit institutions in the first decade of 20th century. They continued as the primary lending institutions in rural areas, catering to the short term and long term credit needs of farmers for agricultural operations. By mid-sixties the credit requirements of agricultural sector grew manifold with the realisation that co-operative alone would not be able to fulfil the burgeoning demand of rural credit. Therefore, the concepts of multi-agency approach to rural credit and the social control measures were adopted and the commercial banks in the country were called upon to extend credit to rural masses on priority basis. As a result, major commercial banks were nationalised and directed to open their branches in rural areas to serve the rural masses, especially the poor.

1.2 In 1972, the Banking Commission observed in their report that despite large expansion of network of commercial banks, there would still be the need and possibility of having specialised network of bank branches to cater to the needs of rural poor. Thus originated the concept of `Rural Bank'. While the debate on the modalities of `Rural Bank' was on upto 1975, an urgent need at the policy level was felt for an alternative institutional set up of rural banks to cater to the needs of rural credit arising out of the vacuum created by the demolition of the structure of rural money lenders. This was the result of Government's effort to eradicate rural indebtedness as a part of 20 Point Programme. Consequently, Government of India (GOI) vide its notification dated 1 July, 1975 constituted a Working Group on Rural Banks under the Chairmanship of Shri M. Narasimham. The notification issued by GOI stated that these institutions were to be established on the basis of attitudinal and operational ethos, different from those of commercial banks. The idea in setting up such a new institution by the Government had two objectives: (i) to provide employment to the rural educated youth who were oriented to care for their rural folk unlike the urbanite employed with the public sector banks and (ii) to bring down the cost of rural banking by recruiting staff for these banks on the same scale of pay and allowances as for the comparable cadre of State Government/local bodies.

1.3 The Working Group in its report (submitted on 31 July, 1975), recommended the setting up of State sponsored, region – based, rural oriented commercial banks which would blend the rural touch, local feel, familiarity with rural problems and low cost profile which co-operatives possessed in a large degree. The modern business outfit's commercial market with a modernised outlook of commercial banks had to be integrated. In a sense it was an experiment to hybridise commercial banking culture with the rural ethos.

1.4 The Working Group was fairly clear in asserting that the role of this new institution would be to supplement and not supplant the existing financial institutions in the area. It was also envisaged that this institution would help in reducing regional imbalances by mobilising and simultaneously deploying resources in the same region. The Working Group envisaged that RRBs would cover primarily the small and marginal farmers, landless labourers, rural artisans, small traders and other weaker sections of rural society for their productive credit needs and to a limited extent, the consumption credit needs.

1.5 Based on the recommendations of the Working Group, Government of India promulgated an Ordinance on 26 September, 1975 (subsequently replaced by the Regional Rural Banks Act, 1976) to set up the Regional Rural Banks. First batch of five RRBs was set up on 2 October, 1975 in the States of Uttar Pradesh, Haryana, Rajasthan and West Bengal. In this way, a new credit institution came into existence in the country. As of now there are 196 RRBs in existence throughout the country.

Objective

1.6 The objective behind the establishment of RRBs were as under:-

(a) to take the banking services to the door steps of rural masses particularly in hitherto un-banked rural areas;

(b) to make available institutional credit to the weaker sections of the society who had by far little or no access to cheaper loans and had, per-force, been depending on the private money lenders;

(c) to mobilise rural savings and channelise them for supporting productive activities in the rural areas;

(d) to create a supplementary channel for flow of credit from the central money markets to the rural areas through refinance;

(e) to generate employment opportunities in rural areas;

(f) to bring down the cost of purveying credit in rural areas.

Responsibilities & Activities

1.7 As per the Regional Rural Banks Act, the RRBs were set up "…….. to develop the rural economy in providing for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs and for matters connected therewith and incidental thereto."

1.8 Within the broad definition of the banking activities as contained in the Banking Regulation Act, the Regional Rural Banks have in particular to undertake the following types of business, namely:

(a) granting of loans and advances, particularly to small and marginal farmers and agricultural labourers whether individually or in groups, and cooperative societies, including agricultural marketing societies, agricultural processing societies, cooperative farming societies, primary agricultural credit societies or farmers' service societies, for agricultural purposes or agricultural operations or for other purposes connected therewith;

(b) granting of loans and advances, particularly to artisans, small entrepreneurs and persons of small means engaged in trade, commerce or industry or other productive activities, within the notified area in relation to the Regional Rural Bank.
The sponsor bank wise break up of RRBs is given below:

Serial No.	Sponsored Bank	Sponsored RRBs
1.	Allahabad Bank	7
2.	Andhra Bank	3
3.	Bank of Baroda	19
4.	Bank of India	16
5.	Bank of Maharashtra	3
6.	Bank of Rajasthan	1
7.	Central Bank of India	23
8.	Canara Bank	8
9.	Corporation Bank	1
10.	Dena Bank	4
11.	Indian Overseas Bank	1
12.	Indian Bank	4
13.	The Jammu & Kashmir Bank Ltd.	2
14.	Punjab & Sind Bank	1
15.	Punjab National Bank	19
16.	State Bank of Bikaner & Jaipur	3
17.	State Bank of Hyderabad	4
18.	State Bank of India	30
19.	State Bank of Indore	1
20.	State Bank of Mysore	2
21.	State Bank of Patiala	1

22.	State Bank of Saurashtra	2
23.	Syndicate Bank	10
24.	United Bank of India	11
25.	UCO Bank	11
26.	UP State Co-op. Bank	01
27.	Union Bank of India	04
28.	Vijaya Bank	01
	All India	**196**

RRBs Act, 1976

1.9 The RRBs Act, 1976 provides for the incorporation, regulation and functioning of RRBs with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs and for matters connected therewith and incidental thereto.

1.10 Asked as to whether provisions in the Act were adequate or required any modifications, Ministry of Finance in their note furnished to the Committee stated as under:

> "Though the provisions of the RRBs Act have been generally found to be adequate for the smooth functioning of these banks, certain modifications as indicated in Annexure (Annexure I) are suggested for facilitating smoother working of RRBs in the changed banking environment."

1.11 The Estimates Committee held discussion with the representatives of various RRBs across the length and breadth of the country. On the question of inadequacy of RRB Act and changes contemplated, following suggestions were given:

Shivalik Kshetriya Gramin Bank:

- As per the Act, the authorised share capital of the RRB is Rs. 5.00 crore and the paid up capital is Rs. 1.00 crore only. It is suggested that if the paid up capital is raised, it would strengthen the financial base of RRB and would improve its viability.

Buldana Gramin Bank

- RRB should be allowed to open few branches in the business centres out of its area of operation.
- RRB should be provided with a permanent special recovery officer armed with powers of seizure and sale.
- At present the recovery of loans to farm sector is made by invoking the provisions of Maharashtra provision of facilities for agricultural credit by Banks Act 1974. The State Government may be directed to pass suitable amendments to this Act to cover recovery of Non Farm sector advances.

Thane Gramin Bank

- Better legal frame work for better recovery mechanism at par with cooperatives.
- Flexible branch licensing policy in opening, closure, shifting, merger.

Yavatmal Grameen Bank

- RRBs share capital may be increased from present level of Rs. 5 crore to Rs. 25 crore.
- RRB should be allowed to open some branches in the business centres out of the area of operation.
- RRBs should be allowed to go for computerisation.
- The Board should be represented by Expert for legal/union matters for proper governance.

Hindon Gramin Bank

- Minimum amount of paid up capital should be Rs. 25 crore for small RRBs (having total business of upto Rs. 500 crore. For bigger RRBs it should be Rs. 50 crore. The authorised capital should be Rs. 100 crore.

Ganga Yamuna Grameen Bank

In order to meet the capital adequacy norms, in future the Government should make a plan for infusion of capital. Accordingly, authorised & paid up capital should be suitably enhanced."

1.12 Noting that a Working Group under the Chairmanship of Managing Director NABARD was set up inter alia to suggest amendment in the RRB Act of 1976, Committee desired to know the details of amendments suggested by the Working Group and whether these amendments were necessary. In reply representative of NABARD, Sh. Chalpati Rao who headed the above Working Group stated as under :

"In fact in the Preamble of the RRB Act it is incorporated credit. It is not credit alone. We are suggesting a change in the Preamble; all kinds of financial services without losing focus on fulfilling the financial needs of the rural poor. That is the major objective. They should meet the needs of the rural poor. While diversifying for credit to various segments of the RRBs to continue their focus on credit and other financial services to the rural poor, women and other socially disadvantaged categories using new cost-effective methodology such as self-help groups and micro-credit. This is another recommendation as far as business is concerned which we have made. We have said that the operating system can be decided by the Board of Directors."

Organisational set up

1.13 The organisational set up of a RRB consists of Head Office, Area Offices and a network of branches.

The Board of Directors is the supreme authority for general superintendence, direction and management of the affairs of the RRB and is comprised of the Chairman and 8 other Directors. Two of the Directors are nominated by the Central Government, two by the State Government, two by the Sponsor Bank from amongst its officers and one each by RBI and NABARD from amongst their officials. The Chairman is the executive head and is assisted by a General Manager (where RRBs have a network of more than 50 branches), and the Senior Managers. The Area Manager heads the Area Office and supervises the functioning of the branches within its jurisdiction. The branches are headed by Branch Managers. In a nutshell, the organisational structure of a RRB is generally as under:

Board of Directors
Chairman
General Manager
Senior Managers & Supporting Staff – Head Office (3 to 7 depending upon size of the Bank)
Area Mangaer-Area Office (1 for every 25 branches)
Branch Managers & Supporting Staff – Branches

Restructuring of RRBs

1.14 On organisational restructuring of RRBs Shri Chalpati Rao, who headed the Working Group set up by Govt. to suggest amendments in the RRB Act, 1976 during his evidence before the Committee stated as under:-

> "In the case of structural consolidation of RRBs, what we said is that without increasing the number of RRBs, the area of operation of all RRBs should be extended to all the districts in the country. If in an adjoining district, RRB is not there, then they should extend it to other areas also, without increasing the number of RRBs.
>
> National level comprehensive view is necessary for the process of consolidation of the entire system of RRBs. That should be based on strategic advantages arising out of amalgamation without reducing the rural coverage. That is the basic thing. We should not reduce rural coverage, but some amalgamation and consolidation should take place so that they become more healthy.
>
> Then contiguous socio-economic zone in a particular State should be considered as a geographic unit for amalgamation of RRBs. For example in

Andhra, there are three regions – Telangana, Royalaseema and the coastal areas. Ultimately, we feel that there could be one very strong bank for each of these, catering to the requirements."

1.15 On organisational restructuring of RRBs, representatives of RRBs during discussion with the Study Group of Estimates Committee on tour gave following suggestions:-

"Ganga Yamuna Grameen Bank

Agency Arrangement/Strategic Alliances:-

Since the Govt. of India has not taken any final view on the organisational restructuring of RRBs, it would be in the fitness of things if RRBs were allowed to enter into strategic alliances/agency arrangements with other RRBs or other Banks to derive the benefits of scale.

Increasing the area of operation of RRB

If RRBs are allowed additional district to derive the benefit of scale, it would add to the profitability of RRBs. In this context we would like to make a request for granting Hardwar District to our Bank i.e. Ganga Yamuna Gramin Bank. We had already referred the matter to sponsor bank which has since directed Lead District Manger Hardwar accordingly.

Marudhar Kshetriya Gramin Bank

Opening of new branches

Consequent upon transfer of Shridungargarh Tehsil from Churu to Bikaner district from 1.4.2001 (this RRB is having 7 branches in Shridungargarh Tehsil), the Sponsor Bank has been requested to arrange for extension of our notified area from Churu to Bikaner districts. Besides the Board of Directors has approved proposal to open a new branch of the Bank at Bikaner district headquarter. The District Level Consultative Committee of Bikaner has also cleared this proposal and application for license has been made to Reserve Bank of India. With a new branch at Bikaner District headquarter, the business and profitability of the Bank shall improve. Besides, when the area of operation of this Bank is extended and notified to cover Churu and Bikaner districts, about 10 new branches at other potential centres of Bikaner district will be opened.

Opening of extension counters

Bank's Board has approved the proposal to open six extension counters and action to open the extension counters has been initiated and hopefully extension counters will be opened in the current year. As a next step, plans to merge loss making branches with extension counters and conversion of extension counters in full fledged branches are afoot.

Shivalik Kshetriya Gramin Bank

Area of operation of RRBs is restricted to the districts allowed to them. RRBs should be freed from the local area limits which will help in improving business as well as profitability."

Rationalisation of RRBs

1.16 On Rationalisation of RRBs, Chalpati Rao Committee have made certain recommendations. Giving details of those recommendations Shri Chalpati Rao during evidence before the Committee stated:-

> "In phase 2 rationalisation exercise is to be undertaken for rural branches of sponsor bank and also the branches of RRBs.The sponsor banks are not taking care of the interests of the RRBs although in fact they are much against the interests of the RRBs. We have noticed this in many cases. What we have indicated is that there should be some sort of rationalisation between rural branches of sponsor bank and the RRBs so that there can be take overs - some of the rural branches of the commercial banks can be taken over by the RRBs and vice versa, and some sort of consolidation can take place, as far as rural branches of commercial banks as well as RRB branches are concerned."

Board of Directors

Composition of the Board of Directors

1.17 The Board of Directors of a Regional Rural Bank comprises the Chairman and the Directors to be nominated by various authorities as per the details given below.

One-Chairman: An individual to be appointed by the Sponsor Bank in consultation with NABARD in case the individual is an Officer of the Sponsor Bank. In case of appointment of any other person as Chairman of the RRB, the prior approval of Central Government is necessary.

Two Directors: To be appointed by the Central Government who will not be any Officer of the Government, RBI or NABARD.

One Director: Officer of the Reserve Bank of India to be nominated by Reserve Bank.
One Director: Officer of the National Bank to be nominated by National Bank.

Two Directors: Officer of the Sponsor Bank to be nominated by the Sponsor Bank.

Two Directors: Officers of the State Government to be nominated by the respective Government.

<u>Powers and the Functions of the Board of Directors</u>

1.18 The general superintendence, direction and management of the affairs and business of the RRB is vested in the Board of Directors who are empowered to exercise all the powers and discharge all the functions which can be exercised or discharged by the RRB. While discharging its functions the Board has to act on business principles with due regard to public interest and has to abide by the Rules and Regulations that may be framed by Government as per the powers vested in Government of India under RRBs Act.

<u>Tenure of the members of the Board of Directors</u>

1.19 A director other than Chairman shall hold the office for such period not exceeding two years from the date when he assumes office as the authority nominating him may specify at the time of his nomination. On expiry of the said period, he can continue to hold the office until his successor has been nominated. He is eligible for re-nomination also.

1.20 From the information furnished by Ministry of Finance as also during discussion with representatives of various RRBs the Committee noted that in certain RRBs non official members were continuing even for a period of more than 8 to 10 years. The Committee during discussion with representatives of various RRBs noted that nominated members of State Government on the Boards of RRBs were seldom present in the Board meetings.

<u>Criteria for appointment of Chairman</u>

1.21 The following criteria are observed during appointment of a person as Chairman of RRB:

(i) He should have earned good reports continuously for three years preceding the selection.
(ii) He should have adequate exposure in general and rural banking, personnel administration and industrial relations and possess leadership qualities.
(iii) He should preferably be conversant with the local language.
(iv) He should not have any vigilance/department/Income tax/ Police case pending against him.
(v) He should not be below the grade of SMG scale IV and his age should not be more than 55 years.

(vi) He should be selected after appropriate screening by an Internal Selection Committee of the Sponsor Bank.

Acting Chairman

1.22 Section 11(6) of RRB Act, 1976 stipulate that if the Chairman is by infirmity or otherwise, rendered incapable of carrying out his duties or is absent, on leave or otherwise, in circumstances not involving the vacation of office, the Central Government may appoint another individual to act as the Chairman during the absence of the first mentioned Chairman.

1.23 Ministry of Finance has suggested amendment in the Section 11(6) of RRB Act by replacement of the words "Central Govt". by the words "Sponsor Bank after consultation with the National Bank" due to following reasons:-

(i) Delays are observed in appointment of the Acting Chairman as per the present provisions of the Act leading sometimes to a peculiar situation regarding holding of the Board Meetings (in the absence of the regular Chairman).
(ii) Facilitating quicker action in appointment of Acting Chairman.
(iii) The regular Chairman of the RRB is appointed by the Sponsor Bank after consultation with the National Bank. The proposed amendment will ensure the same procedure for the appointment of an Acting Chairman.'

1.24 Amendment in the Act section 11(1) 11(a) and 11(4) which pertain to appointment /removal of Chairman have also been suggested.

Tenure of Chairman

1.25 The Chairman can be appointed by the Sponsor Bank for a period not exceeding five years. The Sponsor Bank has the right to terminate the term of the Chairman at any time before expiry of the period of appointment in the same manner in which he was appointed.

1.26 During discussion with representatives of various RRBs, Committee noted that average tenure of Chairman of RRBs was one year and nine months as against the provision that it should not exceed five years. It was also noted that Chairman of RRBs were being appointed for shorter durations and generally people on the verge of retirement and having little aptitude for work were being appointed to head the RRBs.

1.27 On the appointment of Chairmen of RRBs, Secretary, Ministry of Finance (Department of Economic Affairs – Banking Division) during his evidence before the

Committee stated as under:-

> "The other thing that you mentioned was with regard to appointment of the Chairman and the role of the sponsoring bank. This is a very important area because we agree absolutely with you that we should have the concept of the RRBs standing alone and being licensed by the RBI. They may be like any other bank so that they have their accountability".

Staff strength

1.28 The aggregate manpower strength of RRBs as on March, 2000 was 70291 consisting of 29023 officers, 25699 clerks and 15569 sub-staff. Translated into per unit staff (total units in a RRB comprises of Head Office, Area Office and Branch as one unit each) the average manpower works out to 4.20 comprising of 1.74 officers, 1.38 clerks and 1.04 messengers. The range per unit staff in RRBs is as under:-

Range (of per unit staff)	No. of RRBs.
Less than 4.0	71
More than 4.0 but less than 4.2	30
More than 4.2 but less than 4.4	21
More than 4.4 but less than 5.0	37
More than 5.0	37
Total	**196**

1.29 The highest and lowest per unit staff in a RRB were 10.13 and 2.28, respectively. There were 4 RRBs where the average per unit manpower was more than 7 and in 2 RRBs, the number was less than 3. Ministry stated that Head Offices of some of the RRBs were excessively staffed whereas branches were facing shortage of manpower.

Criteria for recruitment, postings and transfers

1.30 When the RRBs were allowed fresh recruitment, the procedure for recruitment was similar to that of sponsor bank i.e. through BSRB and Employment Exchange only. Appointment on compassionate grounds was done as per the direction of Government of India. However, consequent on the implementation of NIT Award vide GOI's circular dated 22 February, 1991, wherein inter-alia, the post of field supervisors and senior clerk-cum-cashiers had been abolished, restructuring the duties and responsibilities for the RRB staff had become imperative. Further, discernible reduction in the work load/productivity norms in the RRB subsequent to operationalisation of Agriculture Debt Relief Committee scheme coupled with service area approach had also been observed. Although the GoI's decision permitting the RRBs to finance non-target groups was to increase the business turnover of RRBs, any addition to the then existing staff strength was not considered justified by

Government of India. It was, therefore, decided by Government of India that recruitment of personnel in any cadre in RRB should not be resorted to unless critical assessment of manpower requirement vis-à-vis work load is undertaken by RRB in consultation with the sponsor bank. The sponsor banks were, therefore, requested to conduct and complete the exercise of manpower requirement vis-à-vis the work load and submit their Report to Government of India vide NABARD's circular dated 20 March 1993 issued at the instance of Government of India. Wherever the sponsor banks were convinced of the urgent need in the augmentation of staff strength of RRBs, they were permitted by Government of India to allow fresh recruitment on case-by-case basis. Thus, there is no general fresh recruitment since March, 1993.

1.31 Subsequently, based on the recommendation of the Working Group on implementation of the NIT Award headed by Shri R.C. Gupta, Government of India had amended the Appointment and Promotion Rules for the RRBs on 28 July, 1998 and based on these Rules the Government of India had allowed promotions in all cadre subject to certain restrictions. However, in that circular also the Government had indicated that the ban on fresh recruitment will continue.

1.32 Thereafter, Government of India appointed in October, 1999 Working Group on Manpower Planning headed by Dr. K.P. Agarwal to recommend standard manpower norms for RRBs. Working Group examined inter-alia the adequacy or otherwise of organisational set up as also the strength of manpower in RRB. Working Group had endorsed the general organisational structure. The Group recommended that the RRBs with the optimum level of manpower today is expected to effectively manage the additional load of business in the next 5-6 years with the help of their existing level of staff in view of the computerisation and other office automation. The Committee further recommended that the continuing manpower shortage after full implementation of the suggested measures will call for allowing RRBs to induct staff. Recruitment is also considered necessary for induction of fresh blood in RRBs. The Group, therefore, recommended that recruitment may be allowed in RRBs which are earning net profits continuously for the past three years. However, the Government of India had decided that fresh recruitment may be undertaken as a last resort only after all other measures such as re-deployment of staff, branch rationalisation, outsourcing manpower intensive jobs, office automation etc., are exhausted.

Recommendations/Observations

1.33 The first part of the 20th century was notable for making available institutional support for agricultural credit in rural India with the setting up of cooperative credit institutions. With the nationalisation of major commercial banks, their branches were also opened in rural areas and credit was extended to the rural masses on priority basis. In 1972, the Banking Commission felt that despite large expansion of network by commercial banks, there was still the need and possibility of having a specialised network of bank branches to cater to the needs of rural poor. Thus originated the concept of `Rural Banks'.

1.34 A Working Group on Rural Banks under the chairmanship of Shri M. Narasimham in its report submitted on 31.7.1975 recommended setting up of State-sponsored, region-based, rural-oriented commercial banks which would blend the rural touch, local feel, familiarity with rural problems and low cost profile which the co-operatives possessed in a large measure. It was meant to be an institution to hybridise commercial banking culture with the rural ethos and was to supplement and not supplant the financial institutions which were already there in a region. The Working Group envisaged that RRBs would cover primarily the

small and marginal farmers, landless labourers, rural artisans, small traders and other weaker sections of rural society for their productive credit needs and to a limited extent, the consumption credit needs. An Ordinance was promulgated on 26.9. 1975 to set up Regional Rural Banks which was subsequently replaced by the Regional Rural Banks Act, 1976 marking the beginning of a new set of credit institutions in the country.

1.35 The RRBs were set up (a) to take the banking services to the door steps of rural masses particularly in hitherto un-banked rural areas; (b) to make available institutional credit to the weaker sections of the society who had by far little or no access to loans at low rate of interest and had, perforce, been depending on private money lenders; (c) to mobilise rural savings and channelise them for supporting productive activities in the rural areas; (d) to create a supplementary channel for flow of credit from the central money markets to the rural areas through refinance; (e) to generate employment opportunities in rural areas; and (f) to bring down the cost of providing credit in rural areas. Out of a total of 196 RRBs in the country, the Committee held discussions with as many as 65 RRBs during Study Tours and have

gathered an impression that over a period of more than two and a half decades, the very character and objectives of setting up such an institution have been eroded. In the subsequent chapters of this Report, the Committee will deal with some of their major concerns regarding the role and functioning of RRBs.

1.36 RRB Act, 1976 provides for the incorporation, regulation and functioning of RRBs with a view to developing the rural economy by providing for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs and for matters connected therewith and incidental thereto. In a period of more than two and a half decades, most of the RRBs have accumulated huge losses and their performance in many spheres is far from satisfactory. The Committee are constrained to note that despite RRBs being riddled with the problems of mounting NPAs, low recovery and productivity, high establishment cost, etc., nothing tangible has been done to improve their overall functioning and make them viable entities. The Committee need not emphasise that in the present competitive environment, where foreign and private sector

banks are in the market providing even better service, RRBs, while not deviating from their mandate of serving rural populace, ought to become more professional to sustain themselves and become viable. As more than a quarter century has passed after birth of the new institution of RRBs, it is time to have a thorough review of the RRB Act and incorporate necessary amendments keeping in view the original mandate given to the institution, their present status, the performance of the banks over the years and also the present needs of the rural masses.

1.37 Some of the suggestions in this regard made by the RRBs are to increase the paid up capital of RRBs, to provide better legal framework for stringent recovery mechanism at par with cooperatives, to allow flexible branch licensing policy for opening, closure, shifting and merger of branches, etc. The Ministry of Finance have also favoured enhancing the issued share capital of RRBs, appointment of non-official Directors from amongst experts in rural economy, agronomic banking, financial management, etc., limiting the term of non-official Directors on the Board, allowing appointment of acting Chairmen of RRBs by sponsor banks to obviate delays in their appointment, etc. The Chalapati Rao Committee which was set up <u>inter alia</u> to review RRB Act, 1976 has also

suggested in its report certain amendments to the Act. The Committee recommend that some of the valid recommendations made by the RRBs, the Ministry of Finance and Chalapati Rao Committee be incorporated in the RRB Act, 1976 in order to make the RRBs more effective and also to ensure that the basic character and philosophy of setting up a unique institution like RRB is not lost sight of.

1.38 The organisational set up in RRBs consists of head office, area offices and a network of branches. Each RRB functions in its own area of jurisdiction, which generally extends to two to four districts. The Committee note that a Working Group appointed by the Government of India inter-alia went into various aspects of organisational set up in RRBs and has endorsed the general organisational structure of RRBs. The Chalpati Rao Committee constituted to examine and suggest changes in the RRB Act, has also made certain recommendations on organisational restructuring of RRBs : (i) Without increasing the number of RRBs, the area of operation of all RRBs should be extended to all the districts in the country. If in an adjoining district, RRB is not there, then they should extend it to other areas also, without increasing the number of RRBs. (ii) A comprehensive national level view is necessary for the process

of consolidation of the entire system of RRBs. That should be based on strategic advantages arising out of amalgamation without reducing the rural coverage. We should not reduce rural coverage, but some amalgamation and consolidation should take place so that they become more healthy. (iii) The contiguous socio-economic zone in a particular State should be considered as a geographic unit for amalgamation of RRBs. Some RRBs have suggested during the presentations made before the Committee that they should be allowed to enter into strategic alliances/agency arrangements with other RRBs or other Banks to derive the benefits of scale, since the area of operation of RRBs is restricted to the districts allowed to them. Another important suggestion was that RRBs should be freed from the local area limits which will help in improving their business as well as profitability. The Committee desire that Government should examine the above recommendations and make suitable amendments in the RRB Act with a view to strengthening the organisation and network of RRBs.

1.39 The Board of Directors of RRB comprises of the Chairman and other Directors who are nominees of the Central Government, RBI, NABARD, sponsor bank and also non official Directors. The tenure of a

Director as per RRB Act, 1976 is for a period not exceeding two years from the date when he assumes office. On expiry of his tenure, a Director can continue to hold the office until his successor has been nominated or he is himself renominated. The Committee are constrained to find that in many RRBs non-official Directors continue to be on the Board even for more than eight to ten years. Such prolonged continuance of non-official Directors not only deprives the RRBs of the benefit of fresh expertise, but in some cases also leads to certain nexus between the Director and employee's associations/ unions. To obviate recurrence of such situations, the Committee recommend that provisions of section 10 of RRB Act, 1976 regarding the tenure of non-official Directors be suitably amended to ensure that their term does not exceed four years in normal circumstances.

1.40 No suitable qualifications have been prescribed for the appointment of non official Directors on the Board of RRBs. In the absence of such a provision, persons with no knowledge about the working of RRBs and without any experience can be nominated as non-official Directors on the Board of RRBs. It is, therefore, not surprising that contribution of non-official Directors on the Board of RRBs, admittedly, has been minimal. It is notable that the Ministry of Finance have suggested amendment to

Section 9(1)(a) of RRB Act, 1976 to appoint non-official Directors from among experts in rural economy, agronomics, banking, financial management, etc. with a view to professionalising the management of RRBs and also to provide depth to the advice available to RRBs. The Ministry of Finance have also suggested amendment to Section 9((i) (a) and (e) and Section 9(1)(d) for reducing the number of Directors of Central and State Governments from two each to one each and increasing the number of sponsor bank nominee directors from two to four. In view of the fact that State Government's equity in RRBs is 15% as against the equity of 35% by sponsor bank the Committee recommend that number of State nominees in RRB Board should be reduced from two to one and the strength of sponsor bank's nominee directors be increased from 2 to 3 to enable the sponsor bank to monitor the working of RRBs closely. The Committee note that review of RRBs made by their Boards is not qualitative in nature. In many cases nominated Directors from State/Centre Government do not attend the Board meetings regularly nor take keen interest in the working of the institution. The Committee desire that the Board should follow up inter alia the observations made in the inspection/audit reports, grievances of clients, accountability of staff, new initiatives taken by the bank, etc.

1.41 It is an established fact that success of an institution, to a large extent, depends upon the proficiency and the interest shown by the person who is at the helm of affairs. The Chairman of RRB, being the Chief Executive of the institution, has an important role to play in the efficient functioning of the RRB and fulfilling the mandate given to it. It is distressing to note that in many cases people who are on the verge of retirement and those who lack interest and initiative are being appointed as the Chairmen of RRBs. It is also a matter of concern that many of them serve the institution for a very short span of time. The average tenure of Chairmen of RRBs has been less than twenty one months as against the provision in RRB Act, 1976 that the tenure of the Chairman should not exceed five years. The Committee are of the firm view that in such a short span of time the Chairman would not even be able to acquaint himself with the working of the RRB. Needless to point out that during their short tenure, most of the Chairmen are unable to make any contribution to the institution. The poor performance of many of the RRBs with regard to different parameters bears eloquent testimony to this. The Committee desire that only officers having at least five years of service left should be considered for appointment to the post of Chairman of RRB. Officers on

the verge of retirement, having adverse report or any adverse comment from vigilance/administration should not be considered for the post of Chairman. The appointment should invariably be for a term of minimum three years and not exceeding five years. The proposed amendment to Section 11(6) of RRB Act, 1976 authorising the sponsor bank instead of Central Government to appoint Acting Chairman of RRB during the absence or inability of the Chairman to carry out his duties due to any reason should also be got incorporated in the Act without further delay. The Committee also desire that necessary amendments should be made in the RRB Act expeditiously so that working of RRBs gets streamlined without further loss of time.

1.42 The aggregate manpower strength of RRBs as in March, 2000 was 70291 consisting of 29023 officers, 25699 clerks and 15569 sub-staff. The Committee note that the range of per unit staff of 71 RRBs was less than four and that of 88 RRBs was between 4 and 5 and in 37 RRBs the range was above 5. The highest per unit staff in a RRB was 10.13 and lowest was 2.28 which also indicate wide variations. The Committee note that the Working Group headed by Dr. K.P. Agarwal appointed to suggest standard manpower norms for RRBs had observed that RRBs with the

optium level of manpower today are expected to effectively manage the additional load of business for the next 5-6 years with the help of their existing level of staff in view of the computerisation and other office automation. The Group, therefore, had recommended that recruitment may be allowed in RRBs which are earning net profits continuously for the last three years. The Secretary of the Ministry admitted that head offices of some of the RRBs are excessively staffed whereas branches are facing manpower shortage. The Committee are constrained to note that while a conscious decision seems to have been taken not to recruit any new staff in RRBs, precious little has been done for rationalisation of staff, computerisation and office automation in RRBs. In the absence of such an exercise, many RRBs continue to suffer from shortage of manpower. The Committee, therefore desire that measures should be initiated for computerisation and office automation in RRBs in a time bound and phased manner. In view of the present rapid technological and economic changes, it is desirable that an in built mechanism is evolved to ensure review of the organisational structure and staffing pattern of RRBs in a span of ten to fifteen years. As suggested by the Ministry, a new provision should be added to Section 17(1) of RRB Act to make it lawful to

send officers/employees on deputation to other institutions, including other RRBs.

CHAPTER – II

Credit Deposit Ratio

2.1 The CD Ratio of some of the Regional Rural Banks during 2000-2001 was as under:-

S.No.	Name of the Bank	CD Ratio
1.	Haryana Kshetriya Bank	48.13
2.	Himachal Gramin Bank	24.96
3.	Parvatiya Gramin Bank	25.69
4.	Jammu Rural Bank	17.88
5.	Ellaqui Dehati Bank	14.46
6.	Shivalik Kshetriya Bank	26.29
7.	Kapurtha Ferozpur Kshetriya Gramin Bank	36.27
8.	Jaipur Nagpur Gramin Bank	30.80
9.	Marwar Gramin Bank	33.5
10.	Sekhawati Gramin Bank	32.89
11.	Bikaner Kshetriya Gramin Bank	65.96
12.	Arunachal Pradesh Rural Bank	106.87
13.	Buldana GraminBank	88.52
14.	Tungabhadra Gramin Bank	91.88
15.	South Malabar Bank	119.41
16.	North Malabar Bank	122.66

From the above it is noted that CD ratio varied from 14.46% to 122.66%.

2.2 Giving reasons for low CD ratio in many RRBs and a huge variation in the CD ratio from bank to bank, Ministry of Finance in their note furnished to the Committee stated as under:

> "During 1996-97, only 45 RRBs were having the CD Ratio above 60% and the rest of the RRBs had CD ratio below 60%. It is further observed that the CD ratio has declined over the years because of the stringent asset classification and income recognition norms. In the year 2000-01, out of 196 RRBs, only 41 RRBs have CD ratio higher than 60% and most of these RRB are located in South. It is observed from the CD ratio that the RRBs in the North India have followed the investment route as a strategy, whereas the RRBs in the South have followed the credit route."

2.3 On low CD ratio in RRBs, Secretary, Ministry of Finance (Department of Economic Affairs – Banking Division) during his evidence before the Committee stated as under:

> "…….but on the Credit Deposit Ratio, I would submit that this ratio is declining. That is also a problem in respect of the commercial banks, particularly with regard to many States like Orissa, the North-Eastern States and States like that. The point is that whatever deposits they are mobilising, that much credit is not flowing. It may be appreciated that it is not entirely the fault of the bankers. After all, there has got to be some kind of bankability and the project has to be available to them. The borrowers should be available to them. Then, it will be a viable scheme. So, that is one reason.
>
> It will be a very striking that the average CD ratio works out around 42 per cent. But, in some States in this country like the Southern States, it is as high as 80 per cent. Even in the Eastern States, I find in my State Orissa, it works out to be 60 per cent. I am quite amazed that the CD ratio in the commercial banks in Orissa is very low. When we go back to the States, we ask why the CD ratio is going down. The CD ratio is also connected very much with the sustainability and strength of those institutions which are catering to the rural areas. There are also the other factors where investment and lending opportunities are available to them. That point may kindly be appreciated. But certainly I am not saying that is a satisfactory situation. We will have to take pro-active measures so that the CD ratio is improved."

2.4 Giving the reasons for low CD ratio in RRBs and steps proposed to be taken to augment this ratio, Chairman, NABARD during his evidence before the Committee stated:

> "As far as the CD ratio is concerned, it is a fact that it has been declining very fast. From the year 1992 to 1999, the decline in each year has been about three to four per cent. In 1992, the CD ratio of RRBs was 69.3 per cent. There has been a constant decline of about three or four or six per cent in one particular year. In 1999, it had come to 41.2 per cent. The only point, which I can say is that since 1999, the decline at least has been arrested. That is the only point which I can mention. There has been no further decline. As a matter of fact, in 2002 it had reached 41.3 per cent, which was slightly higher than the 1999 figure. In 2002 it has reached about 41.8 per cent. There is some trend of its increase. This is the only point which I can add. The quick decline, which was taking place, is not there for the last three years. We are

> hopeful that the trend will change. As the hon. Secretary has already mentioned, in spite of the overall picture, there are States where the CD ratio is clearly high. It was very correctly mentioned that in the entire South, the CD ratio has been fairly good. The average CD ratio in 2001 for the four southern States was about 70 per cent. So it is possible for the RRBs, as they are designed, even today to do it. But unfortunately in certain parts of the country they went away from lending and concentrated on the investment route."

<u>Investment of Funds</u>

2.5 In January 1995, the RRBs were allowed to invest their surplus funds in specified avenues of Non-SLR investments so as to have optimum returns on their surpluses. Thus, total investment of RRBs include SLR and Non-SLR investments.

On all India basis, the amount of SLR investment from RRBs was Rs. 7346.77 crore as on 31.3. 1999, which increased to Rs. 10259.73 crore by 31.3.2001. The highest amount of SLR investments by RRBs was made in UP on account of large amount of deposits outstanding at Rs. 2730.90 crore as on 31.3.2001. The lowest amount in SLR investment was made by the RRB from Arunachal Pradesh where the investment was Rs. 435 crore as on the same date.

2.6 Total Non-SLR investment of all RRBs in India stood at Rs. 10448.15 crore as on 31.3.1999 which grew to Rs. 15461.84 crore as on 31.3.2001. The Non-SLR investment was highest in the RRBs in Uttar Pradesh with Rs. 4762.30 crore as on 31.3.2001 being invested in various Non-SLR avenues.

The investment to Deposit Ratio was 60.37% on 31.3. 1999 in most of the RRBs which has increased to 67.05% on 31.3.2001. In some of the RRBs, the ratio was as high as 96% which came down to 60% subsequently.

2.7 Giving his views on high ID ratio in RRBs, a representative of NABARD stated during evidence:-:

> "I have been always mentioning and I had occasion to make a presentation to the hon. Chairman earlier also that so long as these banks were losing and they had huge accumulated losses, there was some justification for them to do investment banking because if the systems are not all right and their money was not coming back or they had huge accumulated losses, in the interest of safety of depositors, it could have been an appropriate policy, at least, till such time they were able to reduce their losses or eliminate all the accumulated losses. But once the 80 banks have already

eliminated all the accumulated losses, now the justification for them to continue doing investor banking is very low. As a matter of fact, I am quite hopeful that the Reserve Bank of India will take a view and some special decision will be taken about, at least, those banks which do not have any accumulated losses but still they continue to have a CD ratio of less than 40 per cent or 45 per cent or I would say 60 per cent. There should be some kind of a penalty attached for them. May be there should be a system whereby they could be asked to keep some surpluses for a specific type of agricultural lending or investing in agriculture, whatever the Reserve Bank decides."

Loans and advances

2.8 The various statutory provisions/regulations/policy guidelines which have been prescribed for RRBs for deployment of funds for rural development and other mandated activities in the region are given below:

In terms of Section 18 of the RRBs Act, 1976 every RRB shall carry on and transact the business of banking as defined in clause (b) of Section 5 of the Banking Regulation Act, 1949, and may engage in one or more forms of business specified in sub section (1) of Section 6 of that Act. Without prejudice to the generality of these provisions every RRB may, in particular, undertake the following types of business, namely; (i) the granting of loans and advances, particularly to small and marginal farmers and agricultural labourers, whether individually or in groups, and to co-operative societies, including agricultural marketing societies, agricultural processing societies, co-operative farming societies, primary agricultural credit societies or farmers service societies, for agricultural purposes or agricultural operations or for other purposes connected therewith and (ii) granting of loans and advances, particularly to artisans, small entrepreneurs and persons of small means engaged in trade, commerce or industry or other productive activities, within the notified area in relation to the RRBs.

Priority/Non-priority Sector Lending

2.9 As per RBI directives, RRBs are required to lend 40% of their outstanding advances for the priority sector as in the case of commercial banks. This parity has been established with effect from 1.4.1997. Within the overall target of 40%, the RRBs are required to advance 10% of the total outstanding advances (i.e. 25% of the total priority sector advances) to the weaker sections of the society as in the case of commercial banks. RRBs thus provide finance to their borrowers for various activities such as production credit for farm sector activities and investment credit for all farm and non-farm sector activities. Further, they also provide finance for construction of houses, educational loans, consumption loans, loans to Self Help Groups and NGOs, etc. Loans for rural industries, artisans, retail trade/business, small transport operators, professionals, self employed persons, etc. are also provided by RRBs.

2.10 RRBs are permitted to finance for various non-priority sector purposes like loans for purchase of consumer durables and loans for various purposes against the security of gold ornaments, NSC, KVPs, etc. RRBs provide credit and other facilities to borrowers within their area of operations. The credit facilities are, however, subject to stipulated single exposure norms. As per the single exposure stipulation, a RRB can extend credit and other facilities to a single borrower subject to the maximum of 20% of its own funds (owned funds for RRBs comprise paid up share capital, free reserves and share capital deposits).

2.11 The Committee noted that for the past 5-6 years the average Priority Sector Lending by RRBs had declined. Pointing out that similar RBI norms for lending to priority/agricultural sector lending exist for commercial banks, Committee expressed their apprehensions that priority sector lending by RRBs may go down further and wanted to know as to whether it would be desirable to have the norms for RRBs at par with commercial banks with regard to priority sector lending. In reply, Dy Governor, RBI stated as follows:-

> "I would assure the Committee that we would deliberate among ourselves and see whether there is a possibility for making a differential."

2.12 On priority sector lending, the Chairman, NABARD added during evidence as follows:-:

> "As far as priority sector lending is concerned, as the Deputy-Governor of the RBI has already clarified, priority sector lending of RRBs is quite reasonable. The latest figures show that priority sector lending to agriculture and other activities comes to 57 per cent of the total lending. Though there has been a decline in priority sector lending, it has been maintained at 57 per cent, as per the latest figures. As the hon. Chairman has said, though it is 57 percent, for the last three years, even this has shown a decline. Fifty-seven per cent is very attractive and is fairly satisfactory if it is there in priority sector but we should keep in mind that it should not be allowed to go down because it is especially meant for particular section. So, it should not be allowed to go down and even the 57 per cent that they have achieved should be pushed up further. The point is very well taken that there is need for a little bit of concern."

Credit to small and marginal farmers

2.13 Total number of accounts and amount of outstanding advances of RRBs during the last three years were as under:-

(Rs. in Lakh)

Year	**Total**	
	No.of Accounts	**Amount**
1999-2000	1,15,08,534	13,18,424.58
2000-2001	1,16,30,193	15,81,630.46
2001-2002	1,19,48,078	18,62,922.47

Asked to give percentage of Accounts of small and marginal farmers, the Ministry of Finance in their note furnished to the Committee informed that details of number of accounts of small and marginal farmers was not separately maintained. However, RRBs being rural financial institutions operating primarily in the rural areas, the clientele outreach is predominately small and marginal farmers. Progressive increase in the loans issued by RRBs year after year also indicate increase in the coverage of small and marginal farmers.

2.14 The Ministry furnished following figures regarding loans issued and share of small and marginal farmers during last three years :-

(Rs.in crore)

Year	Total loans	of which loans issued to	% to total loans
1998-99	5580.80	2317.29	41.50
1999-2000	6980.16	2712.66	38.90
2000-2001	8843.23	3221.68	36.40

2.15 From the above it is noted that percentage of loans issued to small and marginal farmers out of total loans issued has been declining year after year.

2.16 Asked as to what steps were being taken to cover small and marginal farmers in their area of jurisdiction who had so far not opened their account, Ministry of Finance in their note furnished to the Committee stated as under:-

> "Branches/HO of RRBs are generally in touch with the potential farmers of their areas of operation for increasing the credit flow as well as the outreach. Introduction of Kisan Credit Card, financing to Self Help Groups have improved the outreach. Financing of the Government sponsored programmes have substantially helped the

BPL families (SF/MF) to avail credit for income generating activities.

Under service area approach bank branches are required to formulate village credit plans based on village surveys and available potentials. The aggregation of the service area plans at block level will from the credit plan for the block, block plans are further aggregated to prepare the District Credit Plan. Generally Bank Branches prepare their service area plans taking into account the local credit needs, credit absorption capacity of the clients, recovery performance, backward and forward linkages etc. and try to cover the farmers/artisans operating in their respective area of operation. Besides the RRBs, the Cooperative Banks are extending credit facilities to the SFs/MFs under the Multi-Agency approach."

Compound interest on agriculture loan

2.17 Committee noted that some RRBs were charging compound interest on agricultural loans, which was in utter violation of RBI guidelines. Asked to give number of cases where RRBs had been found to be charging compound interest on agricultural loans. Ministry of Finance in their note stated:

"As per the data available with us for one zone (southern), only one RRB (Rayalseema Grameena Bank) was reported to be charging compound interest on agricultural loans. For other regions, we are yet to receive the data."

During discussion with representatives of various RRBs the Committee have found out that a number of RRBs were charging compound interest on agriculture loan.

2.18 Asked to give reasons for charging of compound interest on agricultural loan, a representative of RBI stated during evidence as follows:-:

"On the question of these interest rates and investment operations, after the freedom has been given to all the banks to quote their own rates, including the regional rural banks, perhaps in their anxiety, to write off the losses that they have had in the past, they have also jacked up their interest rates. Perhaps they feel that they have to be with their peers who are in the urban and metropolitan centers. They want to cover up their losses and show a good balance-sheet. In their anxiety to do that, they have skewed up their rates in the recent past. This is what, I feel, must have happened.

In the agricultural sector, as the instructions of the Reserve Bank stand, for two and half years, if the interest remains unserviceable, which is co-terminus with the sale of the crops coming from the harvest, only then, it becomes a non-performing asset. Therefore, if somebody is doing quarterly compounding, it is certainly not a correct thing that is being done.

We will reiterate our instructions in this particular thing. But to take advantage of the agriculture sector, their ignorance and making money out of them with other miscellaneous charges and other charges is certainly not an ethical thing. That need to be looked into."

2.19 On the issue of charging of compound interest, Secretary Banking Division further added:

"I think there should be no problem to bring it to the notice of the banks and take necessary action. NABARD as the supervising authority, should take it up wherever such things are happening."

<u>Reconciliation of Accounts</u>

2.20 Committee note that reconciliation of inter-branch accounts of RRBs had been pending in a large number of RRBs. Number of credit/debit entries in respect of 140 RRBs and 86 RRBs for the year ended on 31.3.2000 and 31.3.2001 respectively were stated as under:-

The highest number of credit entry was observed in the Southern region (87598) for the year ending on 31.3.2002 and the total amount involved in that was Rs. 77840.23 lakhs. Out of these entries, around 65453 entries were above 6 months old and the amount involved in that was Rs. 41846.55. Next in order were the RRBs in Central region and the total number of credit entries remained outstanding to the extent of 19380 with an amount of Rs. 9656.79 lakhs.

The highest number of debit entries remained for reconciliation was in the region of South (64099) and the amount involved in that was Rs. 67698.82 lakhs. Next in order were Eastern Region RRBs. The total number of debit entries pending for reconciliation was 15606 with an amount of Rs. 8455.03 lakhs.

2.21 Asked as to what steps were being taken to remove pendency of entries for reconciliation, Ministry of Finance (Department of Eonomic Affairs – Banking Division) in their note stated as under:

"For the year ending 31 March 2001, the highest number of credit entries remained pending for reconcilliation in the RRBs for Southern Region

(32204) with the amount of Rs. 13624.14 lakhs and next in order was the RRBs in the Western Region as on 31.3.2001. The total number of entries involved in that was 12384 with the amount of Rs. 5786.87 lakhs in the Western Region.

The highest number of debit entries for the year ending 31.3.2001 was in Southern Region (19179) followed by Eastern Region (15606). Debit entries which remained pending over 6 months was highest in Western region (3324) followed by RRBs in the Southern region."

2.22 On targets set for computerisation to facilitate reconciliation of entries and the present position of computerisation, Ministry in their note stated as under:-

"As per the present position, many of the RRBs have computerised functioning of their Head Offices where compilation of statistical information in respect of all of their branches take place. Under Human and Institutional Development Project being implemented by NABARD in collaboration with Swiss Agency for Development and Co-operation (SDC), computer with necessary peripherals have been supplied to all the RRBs to facilitate computerisation of their Head Offices. At the branch level, however, only few of the branches having large business volume have been provided with back office computerisation as of today. The Working Group on Manpower Planning in RRBs has recommended for computerisation of the Head Offices, Area Offices and a minimum of 50% of the RRB branches in a phased manner in next five years. In view of this, GOI has advised the sponsor banks to formulate RRB-wise plan keeping in view the financial position of each RRB, infrastructural facilities available in their areas and the business potential of the branches. These plans will be examined by NABARD and clearance will be given on case-by-case basis."

During the discussion the Estimates Committee held with the representatives of various RRBs, the need for computerisation of Head Office and branches of RRBs for providing better customer services, speedy services, accuracy, reduction in transaction cost, quick decision, etc. was raised by the concerned Officers.

2.23 On computerisation and introduction of I.T in RRBs, Sh. Chalpati Rao who headed the Committee to examine the working of RRBs during his evidence before the Committee stated as under:

"As regard technological dimension, we have made some suggestions. One of them is that the RRBs need not replicate the models of extensive computerisation of commercial banks. The commercial banks could afford it and have done on a very big scale. But we felt that the RRBs being low cost banks, they need not blindly follow what the commercial banks have done.

Appropriateness of IT to the real context and cost effectiveness is the most important thing to the RRBs. Here, in one of the recommendations which may affect Government of India, we have said that to provide soft loan assistance on specific terms to potentially viable RRBs, the working group suggest setting up of rural banking technology fund of the order of about Rs. 100 crore with a centralised agency at the national level. That is to bring in computerisation. It is not that in rural areas computerisation is not required. It is required in remote villages also. So, for this purpose, we feel that instead of leaving it to individual RRB at the mercy of various consultants, a national level body should be there. It should be administered by a national level body so that the information technology process can be adopted in a smooth way in RRBs."

37

2.24 The following is the ~~Annexure 37~~ Status of Reconcialation of branches of RRBs for the year 2000-01 :

(Rs.lakh)

As on	Credit Entries O/s No.	Credit Entries O/s Amt.	Ofwhich, above 6months No.	Ofwhich, above 6months Amt.	Debit Entries O/s No.	Debit Entries O/s Amt.	Ofwhich, above 6months No.	Ofwhich, above 6months Amt.
NORTHERN REGION								
31 March 00*	9083	4122.14	0	344.69	4439	1794.55	1501	503.85
31 March 01^	4680	2721.92	0	33.97	1747	2058.19	107	26.27
NORTH-EASTERN R								
31 March 00*	771	449.01	0	144.50	981	334.12	534	125.10
31 March 01^	339	208.69	0	97.66	497	140.67	424	70.41
EASTERN REGION								
31 March 00*	15764	7040.74	0	530.49	15606	8455.03	3892	1045.64
31 March 01^	11751	8692.50	0	662.31	9806	9801.05	1739	516.09
CENTRAL REGION								
31 March 00*	19380	9656.79	857	569.96	10446	7999.95	2551	688.25
31 March 01^	10963	5095.50	0	708.61	6570	4855.99	1511	845.02
WESTERN REGION								
31 March 00*	11102	3140.96	4070	747.70	9178	2131.80	2370	750.55
31 March 01^	12384	5786.87	0	1740.55	5350	688.40	3324	1870.54
SOUTHERN REGION								
31 March 00*	87598	77840.23	65453	41846.55	64099	67698.82	56218	41958.07
31 March 01^	32204	13624.14	0	2908.98	19179	7811.10	3123	2070.03

Non-Performing Assets

2.25 On the magnitude and reasons of NPAs in RRBs, their impact on the profitability of RRBs and steps taken to reduce NPAs, the Ministry of Finance (Department of Economic Affairs – Banking Division) in their note furnished to the Committee stated as under.

> "The NPAs are being identified by RRBs under different categories of substandard, doubtful and loss assets as per the guidelines issued by RBI since the year ended on 31 March 1996. As on 31 March 2001, the total non-performing assets of all 196 RRBs amounted to Rs. 2900.34 crore which constituted 18.34% of total loans outstanding, Rs. 15818.37 crore as on that date. The non performing assets, in addition to adversely affecting the profitability of the banks due to choked income but continued payment of interest on these funds, increase their cost, etc. The NPAs adversely affect recycling of funds and in tight-money situation high NPAs deprive other eligible persons also from availing bank credit. This is evident from the fact that the NPAs of RRBs have shown a steady decline during the last five years from the high level of 43% in 1995-96 to 18.34% in 2000-01. In absolute terms, however, the reduction is not so significant as the NPAs have reduced from Rs. 3232 crore as on 31 March 1996 to Rs. 2900 crore as on 31 March 2001.
>
> On an analysis of the 196 RRBs, it is observed as on 31 March 2001 that:
>
> - Lowest Percentage of NPAs is observed in two RRBs (North-Malabar and South Malabar Gramin Bank) situated in Kerala whereas the largest percentage of NPAs is clustered in Tripura followed by Manipur and Meghalaya.
> - Highest amount of NPAs is observed in absolute quantum in the RRBs of UP.
> - NPAs in southern zone are less as compared to the northern & eastern zones.
>
> The lowest percentage of NPAs is observed in Pithorgarh Gramin Bank in UP(0.14%)."

2.26 A statement giving RRB-wise details of NPAs as at the end of years 1998-99,1999-2000 and 2000-2001 is given in Annexure-II.

Major Reasons for NPAs

2.27 According to the Ministry of Finance (Department of Economic Affairs –Banking Division) the following are the major reasons for NPAs:-

Annexure II

Non Performing Assets of RRBs - 31 March 1999 to 2001

(Rs.Lakh)

Sl	Name of the RRB	Sponsor Bank	As on 31 March 1999 Loans O/s	As on 31 March 1999 NPA	As on 31 March 1999 NPA %	As on 31 March 2000 Loans O/s	As on 31 March 2000 NPA	As on 31 March 2000 NPA %	As on 31 March 2001* Loans O/s	As on 31 March 2001* NPA	As on 31 March 2001* NPA %
	HARYANA										
1	HARYANA KGB	P.N.B	9808.80	2721.06	27.74	11195.75	2614.54	23.35	13373.08	2890.88	21.62
2	GURGAON GB	SYNDICATE	16839.40	4026.22	23.91	19404.76	3226.11	16.63	23956.68	2269.87	9.47
3	HISSAR-SIRSA KGB	P.N.B	4763.72	685.74	14.40	6071.12	712.13	11.73	7617.75	591.59	7.77
4	AMBALA KURUKSHETRA GB	P.N.B	5505.68	796.35	14.46	6019.83	974.49	16.19	6754.88	891.58	13.20
	Sub Total		36917.60	8229.37	22.29	42691.46	7527.27	17.63	51702.39	6643.92	12.85
	HIMACHAL PRADESH										
5	HIMACHAL GB	P.N.B	6059.50	892.04	14.72	8420.76	636.50	7.56	10511.00	455.41	4.33
6	PARVATIYA GB	S.B.I	1344.75	213.40	15.87	1659.76	203.96	12.29	2120.88	239.52	11.29
7	JAMMU RB	J&K BANK	4620.66	1039.47	22.50	5282.14	1270.00	24.04	6141.00	1555.56	25.33
8	ELLAQUI DEHATI BK	S.B.I	1229.75	602.70	49.01	1312.24	476.49	36.31	1616.60	373.00	23.07
9	KAMRAZ RB	J&K BANK	2285.59	630.90	27.60	2535.94	537.38	21.19	2931.00	477.00	16.27
	Sub Total		15540.25	3378.51	21.74	19210.84	3124.35	16.26	23320.48	3100.49	13.30
	PUNJAB										
10	SHIVALIK KGB	P.N.B	3007.76	447.88	14.89	3490.08	338.12	9.69	4213.79	390.34	9.26
11	KAPURTHALA-FEROZPUR KGB	P.N.B	2979.85	1312.46	44.04	3169.06	875.02	27.61	3653.78	375.66	10.28
12	GURDASPUR-AMRITSAR KGB	P.N.B	3871.16	1372.83	35.46	4498.68	779.21	17.32	6111.01	575.00	9.41
13	MALWA GB	S.B.P	3878.09	107.59	2.77	4476.81	122.48	2.74	5250.85	159.42	3.04
14	FARIDKOT-BHATINDA KGB	P&S BK	2184.48	459.50	21.03	2523.08	478.11	18.95	2879.81	453.31	15.74
	Sub Total		15921.34	3700.26	23.24	18157.71	2592.94	14.28	22109.24	1953.73	8.84
	RAJASTHAN										
15	JAIPUR NAGAUR ANCH GB	U.C.O	6660.77	1236.87	18.57	9231.85	793.14	8.59	10659.98	716.90	6.73
16	MARWAR GB	S.B.B.J	10491.31	428.02	4.08	12743.83	458.91	3.60	14850.52	590.92	3.98
17	SHEKHAWATI GB	P.N.B	8398.91	3826.29	45.56	8775.79	3589.04	40.90	9741.12	2950.00	30.28
18	MARUDHAR KGB	B.O.B	2252.68	189.38	8.41	2971.18	239.49	8.06	3428.95	233.47	6.81
19	ALWAR-BHARATPUR ANCH GB	P.N.B	4887.11	1262.77	25.84	7022.62	997.52	14.20	10146.94	746.11	7.35
20	ARAVALI KGB	B.O.B	4553.67	1139.34	25.02	4925.68	1377.47	27.97	5372.34	1427.41	26.57
21	HADOTI KGB	C.B.I	6768.82	1819.70	26.88	7529.27	1472.28	19.55	8372.88	1283.00	15.32
22	MEWAR ANCH GB	B.O.RAJ.	2876.06	346.53	12.05	3718.20	372.30	10.01	4496.16	395.98	8.81
23	THAR ANCH GB	U.C.O	2676.32	587.42	21.95	3326.62	632.36	19.01	4163.17	558.79	13.42
24	BUNDI-CHITTORGARH KGB	B.O.B	5481.66	863.90	15.76	6601.68	916.03	13.88	7293.64	897.00	12.30
25	BHILWARA-AJMER KGB	B.O.B	5463.91	1315.23	24.07	6814.35	1199.93	17.61	8116.60	1239.26	15.27
26	DUNGARPUR-BANSWARA KGB	B.O.B	2352.25	468.67	19.92	2710.12	531.39	19.61	3587.18	479.71	13.37
27	SRIGANGANAGAR KGB	S.B.B.J	2920.24	373.15	12.78	3307.86	340.78	10.30	4270.82	323.41	7.57
28	BIKANER KGB	S.B.B.J	1247.25	94.20	7.55	1857.97	[illegible]	6.52	2100.37	202.47	9.64

Non Performing Assets of RRBs - 31 March 1999 to 2001

(Rs.Lakh)

Sl	Name of the RRB	Sponsor Bank	As on 31 March 1999			As on 31 March 2000			As on 31 March 2001*		
			Loans O/s	NPA	NPA %	Loans O/s	NPA	NPA %	Loans O/s	NPA	NPA %
48	NALANDA GB	P.N.B	3570.00	2434.23	68.19	3421.26	1899.70	55.53	3680.55	1537.48	41.77
49	SINGHBHUM KGB	B.O.I	3775.38	1448.94	38.38	4474.21	1404.70	31.40	5732.49	1213.99	21.18
50	MITHILA KGB	C.B.I	2067.49	912.97	44.16	2134.31	549.24	25.73	2718.40	472.99	17.40
51	SAMASTIPUR KGB	S.B.I	2657.71	587.48	22.10	3092.85	702.38	22.71	4020.02	660.25	16.42
52	PALAMAU KGB	S.B.I	4372.00	2081.00	47.60	4950.28	2197.23	44.39	5637.00	2221.00	39.40
53	RANCHI KGB	B.O.I	3579.55	1139.14	31.82	3991.35	1251.54	31.36	4549.18	1318.71	28.99
54	GOPALGANJ KGB	C.B.I	2200.69	1028.62	46.74	2177.60	691.25	31.74	2633.98	533.98	20.27
55	SARAN KSH GB	C.B.I	2852.32	1488.73	52.19	3227.17	1363.47	42.25	3534.10	1410.19	39.90
56	SIWAN KSH GB	C.B.I	3127.05	1378.13	44.07	3581.53	1325.20	37.00	3808.71	1275.00	33.48
57	GIRIDIH KGB	B.O.I	1455.92	368.68	25.32	1902.35	385.92	20.29	2622.13	331.01	12.62
58	HAZARIBAGH KGB	B.O.I	1581.15	433.59	27.42	1881.49	349.00	18.55	2448.50	277.48	11.33
59	PATALIPUTRA GB	P.N.B	883.76	219.59	24.85	1058.11	189.63	17.92	1358.00	245.00	18.04
60	BHAGALPUR-BKA KGB	U.C.O	2108.76	1121.17	53.17	2158.07	1104.91	51.20	2188.83	1046.49	47.81
61	BEGUSARAI KGB	U.C.O	705.81	240.58	34.09	804.16	223.65	27.81	1092.75	225.67	20.65
	Sub Total		**88675.82**	**40954.94**	**46.19**	**92720.68**	**37505.49**	**40.45**	**107940.08**	**32878.68**	**30.46**
	ORISSA										
62	PURI GB	I.O.B	10514.92	1588.85	15.11	15167.01	1268.88	8.37	19646.05	2110.34	10.74
63	BOLANGIR ANCH GB	S.B.I	6987.01	3379.96	48.37	7545.60	3420.84	45.34	9564.98	2893.03	30.25
64	CUTTACK GB	U.C.O	9216.31	4727.11	51.29	11349.20	2833.66	24.97	12510.21	3645.66	29.14
65	KORAPUT PANCHABATI GB	S.B.I	9703.37	3074.37	31.68	10284.75	3264.14	31.74	11758.28	3132.09	26.64
66	KALAHANDI ANCH GB	S.B.I	4651.31	1395.50	30.00	5725.76	1366.58	23.87	7127.93	1298.45	18.22
67	BAITARANI GB	B.O.I	5553.86	1245.34	22.42	7114.08	1079.27	15.17	9958.01	1130.51	11.35
68	BALASORE GB	U.C.O	2979.96	1992.68	66.87	2672.13	1552.74	58.11	2839.71	1516.15	53.39
69	RUSHIKULYA GB	ANDHRA	6028.37	483.12	8.01	7674.31	675.78	8.81	8900.62	915.82	10.29
70	DHENKANAL GB	I.O.B	6765.41	657.35	9.72	8638.14	680.70	7.88	11289.00	860.00	7.62
	Sub Total		**62400.52**	**18544.28**	**29.72**	**76170.98**	**16142.59**	**21.19**	**93594.79**	**17502.05**	**18.70**
	WEST BENGAL										
71	GAUR GB	U.B.I	12036.45	6081.36	50.52	13024.39	5667.90	43.52	16500.00	5125.00	31.06
72	MALLABHUM GB	U.B.I	14391.93	5732.57	39.83	17753.14	5723.97	32.24	20218.84	5286.70	26.15
73	MAYURAKSHI GB	U.C.O	5952.27	1868.18	31.39	6400.47	1532.65	23.95	8736.20	1300.00	14.88
74	UTTAR BANGA KGB	C.B.I	8511.68	4242.49	49.84	10807.16	3895.44	36.04	13711.87	3800.00	27.71
75	NADIA GB	U.B.I	4299.73	2270.70	52.81	4528.79	2271.36	50.15	5137.23	2301.36	44.80
76	SAGAR GB	U.B.I	6886.52	3720.60	54.03	8021.96	3601.00	44.89	9878.42	3437.14	34.79
77	BARDHAMAN GB	U.C.O	6205.56	1767.80	28.49	7283.77	2283.71	31.35	9021.35	2256.30	25.01
78	HOWRAH GB	U.C.O	4237.54	1697.59	40.05	5016.05	[illegible]	36.51	4618.21	1122.26	24.30

Non Performing Assets of RRBs - 31 March 1999 to 2001

(Rs.Lakh)

Sl	Name of the RRB	Sponsor Bank	As on 31 March 1999			As on 31 March 2000			As on 31 March 2001*		
			Loans O/s	NPA	NPA %	Loans O/s	NPA	NPA %	Loans O/s	NPA	NPA %
79	MURSHIDABAD GB	U.B.I	2422.82	598.21	24.69	3259.99	774.98	23.77	3720.91	934.06	25.10
	Sub Total		64944.50	27979.50	43.08	76095.72	27582.46	36.25	91543.03	25562.82	27.92
	MADHYA PRADESH										
80	KGB HOSHANGABAD	C.B.I	7168.78	2182.19	30.44	8446.76	2027.99	24.01	9452.75	1940.33	20.53
81	BILASPUR-RAIPUR KGB	S.B.I	5635.30	1390.31	24.67	5544.53	1451.48	26.18	6096.03	1648.97	27.05
82	REWA-SIDHI GB	UNION	5994.33	2883.40	48.10	6010.81	3044.01	50.64	5300.63	1836.31	34.64
83	BUNDELKHAND KGB	S.B.I	3425.26	1477.55	43.14	4062.66	1259.60	31.00	4666.07	1140.60	24.44
84	SHARDA GB	ALLAHABAD	2707.86	1105.37	40.82	3003.98	1496.77	49.83	3546.41	1276.00	35.98
85	SURGUJA KGB	C.B.I	3423.98	1182.58	34.54	3547.14	874.42	24.65	3391.55	396.20	11.68
86	BASTAR KGB	S.B.I	1595.29	288.46	18.08	1799.39	321.28	17.85	2200.17	298.30	13.56
87	DURG-RAJNANDGAON GB	DENA	7260.40	3009.90	41.46	6960.87	3330.14	47.84	7356.03	3479.55	47.30
88	JHABUA-DHAR KGB	B.O.B	6442.12	2114.63	32.83	7768.58	2219.18	28.57	9363.56	2251.45	24.04
89	RAIGARH KGB	S.B.I	1888.61	486.35	25.75	2131.43	496.34	23.29	2471.04	585.08	23.68
90	SHIVPURI-GUNA KGB	S.B.I	3571.63	841.10	23.55	4196.54	909.37	21.67	4882.48	950.00	19.46
91	DAMOH-PANNA-SAGAR KGB	S.B.I	2178.78	586.30	26.91	2686.67	575.48	21.42	3109.86	609.40	19.60
92	DEWAS-SHAJAPUR KGB	B.O.I	4386.59	627.36	14.30	5773.57	662.69	11.48	5951.22	484.08	8.13
93	NIMAR KGB	B.O.I	5387.01	1281.40	23.79	5721.59	1370.38	23.95	6632.47	1766.08	26.63
94	MANDLA-BALAGHAT KGB	C.B.I	1237.89	274.73	22.19	1691.61	372.05	21.99	2206.84	261.70	11.86
95	CHHINDWARA-SEONI KGB	C.B.I	3360.78	546.12	16.25	4136.00	641.82	15.52	4947.81	901.35	18.22
96	RAJGARH-SEHORE KGB	B.O.I	3341.43	557.27	16.68	3907.81	284.34	7.28	4879.75	302.03	6.19
97	SHAHDOL KGB	C.B.I	1301.58	530.63	40.77	1617.93	423.20	26.16	1750.51	343.97	19.65
98	RATLAM-MANDSAUR KGB	C.B.I	2902.94	580.67	20.00	3241.13	437.83	13.51	3765.54	578.14	15.35
99	CHAMBAL KGB	C.B.I	2931.24	128.24	4.37	4318.78	190.30	4.41	5122.12	349.00	6.81
100	MAHAKAUSHAL KGB	U.C.O	717.20	330.50	46.08	1000.10	324.52	32.45	1589.75	320.79	20.18
101	INDORE-UJJAIN KGB	B.O.I	2716.75	477.29	17.57	3148.50	456.73	14.51	3223.38	420.01	13.03
102	GWALIOR-DATIA KGB	C.B.I	1998.61	740.57	37.05	2466.18	719.26	29.16	3366.54	686.80	20.40
103	VIDISHA-BHOPAL KGB	S.B.IND	2609.48	262.00	10.04	3572.70	306.18	8.57	4764.85	324.52	6.81
	Sub Total		84183.84	23884.92	28.37	96755.26	24195.36	25.01	110037.36	23150.66	21.04
	UTTAR PRADESH										
104	PRATHAMA BK	SYNDICATE	23291.30	5996.41	25.75	25609.93	5192.73	20.28	31573.36	4392.65	13.91
105	GORAKHPUR KGB	S.B.I	17994.44	6789.76	37.73	21555.80	7556.97	35.06	27361.53	8854.00	32.36
106	SAMYUT KGB	UNION	7180.27	3681.04	51.27	8275.99	3720.05	44.95	9699.20	3475.61	35.83
107	BARABKI GB	B.O.I	4380.36	1223.36	27.93	5032.89	1141.22	22.68	6464.49	1150.12	17.79
108	RAEBARELI KGB	B.O.B	3568.36	1354.30	37.95	4217.41	1459.96	34.62	5302.22	1560.81	29.44
109	FARRUKHABAD GB	B.O.I	5790.11	2343.38	40.47	6645.75	[illegible]	36.46	8047.14	2471.81	30.72

Non Performing Assets of RRBs - 31 March 1999 to 2001

(Rs.Lakh)

Sl	Name of the RRB	Sponsor Bank	As on 31 March 1999			As on 31 March 2000			As on 31 March 2001*		
			Loans O/s	NPA	NPA %	Loans O/s	NPA	NPA %	Loans O/s	NPA	NPA %
110	BHAGIRATH GB	ALLAHABAD	5697.01	1809.58	31.76	5980.32	1705.53	28.52	7110.37	1399.36	19.68
111	BALLIA KGB	C.B.I	6235.61	3375.70	54.14	6677.30	3375.61	50.55	5817.41	2491.00	42.82
112	SULTANPUR KGB	B.O.B	9025.41	3448.71	38.21	10514.65	3373.77	32.09	11829.49	3300.00	27.90
113	AVADH GB	B.O.I	7967.95	3508.15	44.03	9391.87	3623.11	38.58	10636.09	2779.31	26.13
114	KANPUR KGB	B.O.B	8072.29	3623.55	44.89	9189.06	4331.65	47.14	10182.00	4315.61	42.38
115	SRAVASTI GB	ALLAHABAD	7039.07	2952.69	41.95	8837.42	2983.12	33.76	9748.95	2620.95	26.88
116	ETAWAH KGB	C.B.I	3299.68	1651.84	50.06	2981.04	1606.96	53.91	2823.01	1501.20	53.16
117	KISAN GB	P.N.B	2867.09	1019.16	35.55	3194.13	1040.29	32.57	4271.54	810.39	18.97
118	KSHETRIYA KISAN GB	U.P.S.C.B	4390.85	1568.52	35.72	4978.09	1746.06	35.07	6574.71	2067.97	31.43
119	KASHI GB	UNION	6572.62	3593.22	54.67	7108.11	3149.34	44.31	8740.03	2613.00	29.90
120	BASTI GB	S.B.I	6344.12	2972.88	46.86	6859.19	2913.36	42.47	8843.60	2943.60	33.29
121	ALLAHABAD KGB	B.O.B	6063.54	4053.41	66.85	6554.18	3916.51	59.76	7936.70	4005.46	50.47
122	PRATAPGARH KGB	B.O.B	3947.84	1897.77	48.07	4329.99	2001.08	46.21	5718.70	1940.01	33.92
123	FAIZABAD KGB	B.O.B	3844.07	1644.26	42.77	4690.44	1669.18	35.59	5778.07	1653.56	29.62
124	FATEHPUR KGB	B.O.B	2632.81	814.44	30.93	3049.16	914.65	30.00	3457.27	885.00	25.60
125	BAREILLY KGB	B.O.B	4658.52	909.37	19.52	5754.53	892.00	15.50	7193.86	970.38	13.49
126	DEVI PATAN KGB	P.N.B	4109.07	1419.05	34.53	4603.47	1041.79	22.63	6164.35	1050.65	17.04
127	ALIGARH KGB	CANARA	11263.33	1605.61	14.26	13100.59	1988.12	15.18	14808.68	2569.00	17.35
128	TULSI GB	ALLAHABAD	5788.21	2533.97	43.78	6665.81	2745.29	41.18	8850.12	2697.10	30.48
129	ETAH GB	CANARA	6084.08	861.08	14.15	6597.35	1012.54	15.35	7043.13	1046.00	14.85
130	GOMTI GB	UNION	8271.14	2794.35	33.78	9193.12	4205.62	45.75	9707.69	4022.53	41.44
131	CHHATRASAL GB	ALLAHABAD	4277.07	1892.00	44.24	4517.18	2096.17	46.40	6084.61	2068.68	34.00
132	RANI LAKSHMI BAI KGB	P.N.B	2369.97	1058.93	44.68	2300.38	917.24	39.87	2671.67	571.00	21.37
133	VIDUR GB	P.N.B	2142.59	581.15	27.12	2690.60	494.57	18.38	3174.03	300.00	9.45
134	SHAHJAHANPUR KGB	B.O.B	3431.86	341.72	9.96	4591.17	432.49	9.42	5437.95	591.91	10.88
135	NAINITAL-ALMORA KGB	B.O.B	3996.56	448.95	11.23	5305.33	400.45	7.55	6625.20	562.07	8.48
136	VINDHYAVASINI GB	ALLAHABAD	4285.95	2655.96	61.97	4512.66	2638.81	53.71	5358.49	2428.00	45.31
137	SARAYU GB	ALLAHABAD	3349.52	523.17	15.62	4069.20	609.41	14.98	5503.74	561.90	10.21
138	JAMUNA GB	CANARA	5740.54	1567.21	27.30	5624.64	1998.39	35.53	5410.11	2097.97	38.78
139	MUZAFFARNAGAR KGB	P.N.B	1792.88	694.57	38.74	1943.66	519.53	26.73	2382.10	538.39	22.60
140	PITHORAGARH KGB	S.B.I	1408.34	40.66	2.89	1702.96	15.57	0.91	2190.42	3.08	0.14
141	GANGA-YAMUNA GB	S.B.I	1722.94	435.69	25.29	2027.19	434.44	21.43	2557.19	436.61	17.07
142	ALAKNANDA GB	S.B.I	1232.05	152.00	12.34	1586.52	164.14	10.35	2021.72	138.65	6.86
143	HINDON GB	P.N.B	1089.34	357.90	32.85	1226.62	216.04	17.61	1648.00	190.00	11.53
	Sub Total		223218.76	80195.47	35.93	254085.70	[illegible]	32.53	302748.94	80075.34	26.45

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Non Performing Assets of RRBs - 31 March 1999 to 2001

(Rs.Lakh)

Sl	Name of the RRB	Sponsor Bank	As on 31 March 1999 Loans O/s	NPA	NPA %	As on 31 March 2000 Loans O/s	NPA	NPA %	As on 31 March 2001* Loans O/s	NPA	NPA %
	GUJARAT										
144	KUTCH GB	DENA	2984.81	326.97	10.95	3584.68	373.97	10.43	3879.01	368.94	9.51
145	JAMNAGAR GB	S.B.S	4412.48	327.45	7.42	6050.46	221.30	3.66	8224.51	185.81	2.26
146	BANASKANTHA-MEHSANA GB	DENA	4272.50	1102.57	25.81	6043.38	1023.75	16.94	7978.37	839.32	10.52
147	PANCHMAHAL GB	B.O.B	4647.13	997.13	21.46	5636.77	1174.62	20.84	6314.97	1333.95	21.12
148	SURENDRANAGAR-BHAVNAGAR GB	S.B.S	3125.45	255.20	8.17	4271.25	298.03	6.98	5593.42	352.78	6.31
149	VALSAD-DANGS GB	B.O.B	3068.39	971.06	31.65	3832.93	1055.42	27.54	4293.61	1209.30	28.17
150	SURAT-BHARUCH GB	B.O.B	5745.06	1194.86	20.80	6508.81	1576.87	24.23	6782.19	2220.85	[illegible]
151	SABARKANTHA-GANDHINAGAR GB	DENA	2255.58	475.17	21.07	2560.75	535.22	20.90	2920.83	602.18	20.62
152	JUNAGADH-AMRELI GB	S.B.S	2239.66	227.79	10.17	2777.60	255.16	9.19	3233.10	391.19	12.10
	Sub Total		32751.06	5878.20	17.95	41266.63	6514.34	15.79	49220.01	7504.32	15.25
	MAHARASHTRA										
153	MARATHWWADA GB	B.O.M	16893.32	6426.25	38.04	17526.70	5629.15	32.12	18230.92	5894.19	32.33
154	AURANGABAD-JALNA GB	B.O.M	7254.47	1921.96	26.49	8988.74	1723.19	19.17	11190.17	1649.64	14.74
155	CHANDRAPUR-GADCHIROLI GB	B.O.I	3193.54	1045.37	32.73	3750.40	1053.09	28.08	4394.31	998.41	22.72
156	AKOLA GB	C.B.I	1563.38	311.61	19.93	2420.53	979.00	40.45	3782.78	398.76	10.54
157	RATNAGIRI-SINDHUDURG GB	B.O.I	2650.07	373.20	14.08	3038.34	449.83	14.81	3838.77	398.14	10.37
158	SOLAPUR GB	B.O.I	2978.91	570.68	19.16	3384.31	475.09	14.04	3604.17	535.98	14.87
159	BHANDARA GB	B.O.I	2767.24	511.50	18.48	3121.90	452.83	14.50	4031.14	452.56	11.23
160	YAVATMAL GB	C.B.I	1793.87	432.69	24.12	1908.43	378.44	19.83	2236.81	319.73	14.29
161	BULDHANA GB	C.B.I	2397.32	469.19	19.57	2710.57	395.40	14.59	3635.84	614.31	16.90
162	THANE GB	B.O.M	609.46	279.06	45.79	587.67	240.80	40.98	662.91	198.98	30.02
	Sub Total		42101.58	12341.51	29.31	47437.59	11776.82	24.83	55607.82	11460.70	20.61
	ANDHRA PRADESH										
163	NAGARJUNA GB	S.B.I	10327.64	1503.39	14.56	12677.24	1635.85	12.90	17868.92	1961.47	10.98
164	RAYALSEEMA GB	SYNDICATE	24163.14	4836.17	20.01	26308.81	4014.57	15.26	31344.86	3280.62	10.47
165	SRI VISAKHA GB	S.B.I	17501.09	3636.12	20.78	18508.98	3414.06	18.45	24161.70	2430.00	10.06
166	SREE ANANTHA GB	SYNDICATE	12108.76	1755.19	14.50	14378.25	1570.31	10.92	16163.09	1723.85	10.67
167	SHRI VENKETESHWARA GB	INDIAN	10370.03	1209.38	11.66	12576.30	1054.84	8.39	15277.37	748.14	4.90
168	SRI SARASWATHI GB	S.B.H	8039.81	1757.12	21.86	9069.71	1750.34	19.30	11435.44	1737.63	15.20
169	SANGAMESHWRA GB	S.B.I	7793.08	2376.55	30.50	9043.85	1898.66	20.99	11343.80	1617.91	14.26
170	MANJIRA GB	S.B.I	10627.25	2411.74	22.69	12563.61	2324.42	18.50	13704.16	2354.57	17.18
171	PINAKINI GB	SYNDICATE	12456.42	2629.48	21.11	15107.80	2149.40	14.23	19275.02	1461.73	7.58
172	KAKATHIYA GB	S.B.I	4829.52	1193.27	24.71	6343.16	1023.20	16.13	7977.55	818.75	10.26
173	CHAITANYA GB	ANDHRA	6263.51	460.59	7.35	6757.66	[illegible]	4.88	8597.70	462.42	5.38

Annexure

Non Performing Assets of RRBs - 31 March 1999 to 2001

Sl	Name of the RRB	Sponsor	As on 31 March 1999			As on 31 March 2000			As on 31 March 2001		
		Bank	Loans O/s	NPA	NPA %	Loans O/s	NPA	NPA %	Loans O/s	NPA	NPA %
174	SHRI SATHAVAHANA GB	S.B.H	6503.62	1649.80	25.37	7872.53	1578.74	20.05	9769.86	1656.73	16.96
175	GOLCONDA GB	S.B.H	1974.45	460.73	23.33	2450.04	435.68	17.78	3067.59	413.29	13.47
176	SRIRAMA GB	S.B.H	3447.22	1030.09	29.88	3851.18	920.18	23.89	4592.68	707.39	15.40
177	KANAKADUGRA GB	INDIAN	3844.43	364.06	9.47	3918.61	377.32	9.63	4195.00	450.00	10.73
178	GODAVARI GB	ANDHRA	4499.53	727.03	16.16	4770.46	695.12	14.57	5108.74	750.90	14.70
	Sub Total		144749.50	28000.71	19.34	166198.19	25172.48	15.15	203883.48	22575.40	11.07
	KARNATAKA										
179	TUNGABHADRA GB	CANARA	27402.31	4332.43	15.81	32828.73	3775.14	11.50	39805.88	2978.44	7.48
180	MALAPRABHA GB	SYNDICATE	30983.69	6568.22	21.20	39482.43	5336.73	13.52	51257.85	4946.92	9.65
181	CAUVERY GB	S.B.M	11539.64	2198.02	19.05	12065.63	2219.95	18.40	12600.00	1850.00	14.68
182	KRISHNA GB	S.B.I	13831.77	1319.10	9.54	15613.66	1635.98	10.48	18701.61	493.03	2.64
183	CHITRADURGA GB	CANARA	9368.97	1682.71	17.96	11525.83	2106.04	18.27	13376.26	1846.00	13.80
184	KALPATHARU GB	S.B.M	6538.10	1557.43	23.82	7878.74	1567.11	19.89	9337.00	1650.00	17.67
185	KOLAR GB	CANARA	6681.48	1610.70	24.11	7564.73	1524.75	20.16	8603.18	1364.20	15.86
186	BIJAPUR GB	SYNDICATE	13309.51	3017.99	22.68	15690.38	2459.94	15.68	19475.66	1967.20	10.10
187	CHICKMAGALUR KODAGU GB	CORPN	5840.35	1048.30	17.95	6615.90	1192.39	18.02	6934.46	1550.91	22.37
188	SAHYADRI GB	CANARA	3328.66	686.43	20.62	4161.49	610.80	14.68	5077.85	645.30	12.71
189	NETRAVATI GB	SYNDICATE	1980.92	74.00	3.74	2841.90	63.69	2.24	3705.74	77.65	2.10
190	VARADA GB	SYNDICATE	4137.20	271.70	6.57	5031.75	359.08	7.14	5732.93	559.34	9.76
191	VISVESHWARAYA GB	VIJAYA	2019.50	168.25	8.33	2621.72	182.36	6.96	3238.24	248.51	7.67
	Sub Total		136962.10	24535.28	17.91	163922.89	23033.96	14.05	197846.66	20177.50	10.20
	KERALA										
192	SOUTH MALABAR GB	CANARA	33651.89	1914.43	5.69	40649.66	1881.97	4.63	53212.53	2462.60	4.63
193	NORTH MALABAR GB	SYNDICATE	27643.72	1304.10	4.72	36103.43	1331.76	3.69	43766.48	1922.00	4.39
	Sub Total		61295.61	3218.53	5.25	76753.09	3213.73	4.19	96979.01	4384.60	4.52
	TAMILNADU										
194	PANDYAN GB	I.O.B	16658.56	1529.86	9.18	19868.41	1394.11	7.02	26094.62	1365.78	5.23
195	ADHIYAMAN GB	INDIAN	2471.05	338.23	13.69	3057.39	311.87	10.20	3497.76	311.68	8.91
196	VALLALAR GB	INDIAN	2043.57	357.44	17.49	2103.19	301.42	14.33	2774.37	235.65	8.49
	Sub Total		21173.18	2225.53	10.51	25028.99	2007.40	8.02	32366.75	1913.11	5.91
	ALL INDIA TOTAL		1135584.67	316187.74	27.84	1318424.58	304925.10	23.13	1581836.88	290033.66	18.34

(i) The major group of borrowers of RRBs being people with small means, they have very low adversity tolerance and in the event of adversity, they are unable to repay the loans.

(ii) Direct credit in Government sponsored schemes have also a bearing on the piling of NPA because of their poor design, delivery and implementation.

(iii) Natural calamities like cyclones, earthquakes, floods, rain failures, etc.

(iv) Lack of infrastructure leading to poor marketability of produce/product, non-remunerative prices prevailing in the period immediately following the harvesting of crops, etc.

(v) Wilful defaults.

2.28 Asked as to what steps had been taken to control the NPAs, the Ministry in their note have stated that the following steps were taken to control the NPAs:-

(i) In the event of natural calamities and other adverse factors enumerated above beyond the control of the borrowers, the banks extend re-schedulement/replacement facility to mitigate the hardship of the borrowers and allow them some more time to repay the loans.

(ii) Close monitoring and supervision is resorted to in cases of NPAs and the hardship experienced by the borrowers are discussed with them so that a conclusion could be drawn about the recovery of the defaulted loans. In case, of delaying tactics adopted by the borrowers remedial measures within the powers of the banks such as enforcement of hypothecation clause, encashment of securities etc. are resorted to, if necessary.

(iii) Compromise settlements are also accepted as mode of NPA reduction and a pre-determined policy is generally followed by the RRBs with the approval of their Boards.

(iv) Legal proceedings are initiated for recovery of loans.

(v) As a one-time attack on NPAs, guidelines have recently been issued by NABARD on One Time Settlement of NPAs in RRBs on the lines of the guidelines issued by RBI to the Commercial Banks. The one time settlement scheme is non-discretionary and non-discriminatory in nature and covers all NPAs with outstanding balance upto Rs. 5 lakh as on 31 March, 1998. The RRBs have

been advised to provide advantage to the maximum number of NPA cases and at the same time to initiate legal action against all the borrowers who fail to come forward for settlement of their dues under the Scheme or are not found eligible therefor.

(vi) Action is taken as per the staff regulations against the officers who sanction loans in violation of the procedures prescribed. A great care, however, is required to be taken to ensure that the morale of the officers is not adversely affected and they do not hesitate in using discretion available to them for taking independent decisions on a case-by-case basis. A thorough departmental enquiry is necessary before taking any punitive action in this regard.

Role of NABARD

2.29 So far as its role in respect of NPA Management is concerned, NABARD has been issuing guidelines on NPA Management to RRBs and necessary clarifications thereon are being provided. NABARD's training establishments undertook various training programmes for guiding RRB personnel on various aspects of NPA management. During inspection of RRBs NABARD' s inspecting officials undertake sample checking of NPA computation by RRBs as also ensure that RRBs make adequate provisions against NPAs. At the same time they provide guidance to RRB officials on management of various types of NPA accounts. Recently, NABARD has issued guidelines on scheme of One Time Settlement of NPAs in RRBs.

2.30 During discussion with the representatives of various RRBs, the Committee noted that NABARD in their inspection report had pointed out that as against tolerable level of NPA of 5%, percentage of actual NPA was much higher in most of the RRBs. Irregularities in the identification of Non-Performing Assets was pointed out by NABARD as one of the causes for higher NPA in RRBs. NABARD recommended identification of NPAs by RRBs on a regular basis.

2.31 Giving reasons for high level of NPAs in RRBs, the Secretary, Ministry of Finance (Department of Economic Affairs – Banking Division) stated before the Committee during evidence as follows:-

> "Now, the NPAs in RRBs are still quite high, because RRB is like any other bank. All the prudential norms, exposure norms and other RBI guidelines are applicable to them also. We do not want these institutions to get subsidisation from the Government or elsewhere. They have to

stand on their own feet. Though the NPA level is still very high, but over the period of time it has come down from 39 percent to 17 percent last year. That is also a positive sign, but it is not a satisfactory situation.”

Recovery Policy

2.32 In a note furnished to the Committee the Ministry of Finance (Department of Economic Affairs – Banking Division) stated that normally, recoveries are effected through persuasion and regular follow up. When, however, recoveries become irregular, help of external agencies like government machinery, lok adalats, and legal system is sought. Compromise settlements, incentives for repayment and write offs are also resorted to, to improve the recovery and reduce the non-performing assets of the banks. The system of issuing recovery certificates for recovery of bank dues as arrears of land revenue is existing in almost all the states as they have enacted the Acts for recovery of public money on the lines of recommendations of Talwar Committee. RRBs are however, not covered under the ambit of the Bank Recovery Tribunals set up by Government of India. To facilitate recovery in old and chronic NPA accounts, the scheme for One Time Settlement of NPAs in RRBs had been made applicable for a period up to 31 March, 2002. The Committee were informed that every RRB determines its own recovery policy with the approval of its Board of Directors. The sponsor banks are expected to help and guide their RRBs in formulation of the appropriate recovery policy. At present, GOI/RBI/NABARD are not approving recovery policy of individual RRBs. However, general guidelines are being given by them, the latest being the policy on 'One Time Settlement of Chronic NPAs in RRBs'.

On difficulties being faced by the Zonal/Local Office to recover loans, Ministry in their note further stated that the difficulties from the local office and zonal offices are that some of the routine methods which can produce good results in recovery are not followed up. There is a communication gap between the top and down below and between planning and acting in the field. The lack of a clear-cut strategy for recovery is one major difficulty in recovery of loans.

Some RRBs mentioned following difficulties in the recovery process:-

- "Realizable value of asset is not sufficient to cover the loan amount
- Borrowers are not traceable
- Insufficient income
- Prolonged legal process
- Natural calamities, wilful defaulters

Recovery certificates are filed under recovery act with concerned Revenue authorities. Generally the chronic defaulters do not turn up on dates fixed by Recovery Tehsildar. Office of Recovery Tehsildar needs to be provided with sufficient manpower and legal/administrative powers, so that public money is recycled in time and RRBs are able to recover the dues."

2.33 In a subsequent note the Ministry of Finance (Department of Economic Affairs-Banking Division) expressed the following difficulties in recovery of loan :

"The legal constraints faced by the RRBs are mainly concerning the lending as also the recovery of loans. Obtaining of legal documents for the processing of loan applications of holders of land is still a tedious job for the borrowers despite simplifications made in the system. The civil suits filed for recovery normally will go on years together. The land revenue systems followed in most of the states make the job of recovery further difficult. The small borrowers (less than Rs.25000) are not required to provide any security for the loans and as such the banks find it difficult to recover loans from such borrowers once they fall overdue. The Public Money Recovery Acts in some states are not effective on account of various limitations of the existing machinery of Revenue Departments as of now. In some states, the Land Revenue Force forbid forcible recovery from borrowers belonging to SC/ST communities as also relating to sale of their land mortgaged with the banks. In some states, the RRBs are not able to enforce legal recovery of their dues from women borrowers due to certain social systems. Over and above these aspects, certain legal constraints are being faced by RRBs in respect of income tax i.e. RRBs are treated on par with cooperative societies so far as income tax provisions are concerned for the income derived by them from banking activities. However, some income tax authorities are having some misinterpretations of these provisions."

2.34 During discussion with the representatives of various RRBs, the following suggestions were placed before the Committee for speedy recovery of NPAs:-

- “Bank’s dues should be recoverable as arrears of land revenue.
    - Separate Recovery Officers should be designated rather than leaving such cases under agriculture/Public money Act, to be attended to by the SDOs who have many other multifarious jobs to attend rather than recovery of bank dues.
    - Delegation of powers for recovery of banks dues to BMs may also be considered.
    - Maharashtra Provision of facilities for Agricultural Credit by Banks Act, 1974 be implemented vigorously in all RRBs by deputing Special Recovery Officer from Co-operative Department.
    - The necessary steps are to be taken by State Government authorities as per Act for recovery in cases of mis-utilisation of amount of subsidy in loan sanctioned.
    - Legal action is the last option available with the Bank but in this case, the delay in decision makes the recovery delay and doubtful due to condition of asset deterioration.
    - Popularising Lok Adalat for expeditious settlement of suit-filed cases.
    - Compromise settlement as per policy in case of chronic loan accounts.”

Observations/Recommendations

2.35 The Committee note that out of 196 RRBs only in 41 RRBs the Credit-Deposit ratio is higher than 60%. The CD ratio in RRBs declined steadily at the rate of 3 to 4 per cent in a year from 1992 to 1999 due to stringent asset classification and income recognition norms. It is quite alarming to note that while the CD ratio in the RRBs in 1992 was 69.3%, it dipped to 41.2% in 1999. In 2002, the CD ratio was 41.3%. The Committee would like to stress on the need for higher CD ratio for the sustainability, strength and viability of RRBs. The continuous decline from 1992 to 1999 in CD ratio and its remaining almost static thereafter indicate that RRBs need to carefully appraise their credit and deposit policy. The fact that Investment Deposit ratio in RRBs is very high, viz. 67.05% as on 31.3.2001 indicates that RRBs are heavily investing their deposits and thus deviating from their primary responsibility of providing credit to small and marginal farmers and weaker sections of the society in rural areas. The Committee are not convinced with the contention of the Secretary, Ministry of Finance (Department of Economic Affairs - Banking Division) that lack of flow of credit due to non-availability of bankable projects and borrowers was the

major cause of low CD ratio. The very fact that CD ratio among the banks varied from 14.46% to 122.66% is a clear indication that there is ample scope for improvement by RRBs with lower CD ratio. South Malabar Bank and North Malabar Bank with CD ratios of 119.41% and 122.66% respectively should be taken as model RRBs and other RRBs should take a cue from the operations of these banks. The Committee, therefore, recommend that in RRBs which are making absolute profit, the C.D. ratio should be as high as 75%. In RRBs which are making profits but still have accumulated losses, an increasing trend of CD ratio should be ensured and their investment portfolio should get reduced accordingly. Thus, the Committee desire that a two tier system of CD ratio should be allowed.

2.36 The Committee would like to stress that overall planning of the bank should be such that every beneficiary of the credit programme get hassle-free credit. It should be possible to provide loan to small and marginal farmers at a cheaper rate of interest since RRBs acquire funds at cheaper rates. The gap between borrowing and lending of credit should not exceed beyond 2.25 to

3.00%. The sponsor banks, NABARD and the RRBs should also contribute in whatever way possible towards creation of more infrastructural facilities and the growth of industries, particularly agro-based industries, in rural areas so as to augment credit absorbing capacity in rural areas. To overcome the fear of credit turning into bad debt, there is need to upgrade the professional skills of RRB officers in the field of risk management, project appraisal, resource management, post- sanction supervision and follow-up of advances. The overall planning should be such that every beneficiary of the credit programme turn out to be a genuine depositor of the bank.

2.37 In 1995, the RRBs were allowed to invest their surplus funds in specified avenues of Non-SLR investments to reduce the losses and eliminate their accumulated losses. As on 31.3.2001, SLR investments by all RRBs was Rs. 10259.73 crore and Non-SLR investment was Rs. 15461.84 crore. The SLR investment by the RRBs in UP alone was Rs. 2730.90 crore and Non-SLR investment was Rs. 4762.30 crore. The ID ratio in RRBs which was 60.37% as on 31.3.1999 went up to 67.05% as on 31.3.2001. It is distressing to

note that in some RRBs the ID ratio went up to 96% at a certain point of time. The Committee hold the firm view that there is no justification for allowing those RRBs which have already eliminated the accumulated losses to continue to do investment banking. They desire that the Reserve Bank of India should review the trend of ID ratio among the RRBs and certain restrictions should be imposed on those RRBs which have eliminated the accumulated losses, but are still focussing on the investment route with low CD ratio. Those RRBs which are investing their funds for earning profit and thereby have low CD ratio should be identified and, as suggested by the representative of NABARD, there should be some kind of penalty attached to them. The Committee are of the view that the option of investment portfolio should not be allowed to go on for a longer period as it encroaches on rural lending. The Committee recommend that the investment portfolio should be resorted to at a minimum level and for a short period of time to make a particular RRB viable and after that they should revert back to lending portfolio. The endeavour should be to attain viability through lending and not through investments. The guidelines stipulating that Governments deposits be made only in

nationalised banks should be reviewed and suitably modified so that such funds could also be deposited in RRBs as the Committee feel that RRBs are in no way less safe than the sponsor banks.

2.38 From 1.4.1997, RRBs have been brought on par with commercial banks with the stipulation by the RBI that RRBs are required to lend 40% of their advances to the priority sector. Within the overall target of 40%, RRBs are required to advance 10% of the total lending, i.e., 25% of total priority sector advances, to the weaker sections of the society as in the case of commercial banks. The Committee note that the average priority sector lending by RRBs has been declining over the years and as per the latest figures, priority sector lending to agriculture and other allied activities comes to about 57% of the total lending. The Committee note with concern the steady decline in priority sector lending by RRBs, which were specially set up to cater to the rural masses and to make available institutional credit to weaker sections of the society who had by far little or no access to cheaper loans and had perforce been depending on the private money-lenders. The Committee do not find any rationale for fixing the same norms for

lending to priority/agricultural sector by the RRBs as in the case of commercial banks. As RRBs were set up to cater to rural populace, particularly for hitherto unbanked rural areas, the Committee desire that the RBI should apply proper checks to ensure that the present level of 57% of lending by the RRBs to the priority sector is not allowed to decline further. They suggest that the desirability of enhancing the percentage of lending to the priority sector by RRBs should be examined by the RBI and suitable guidelines be issued in this regard.

2.39 RRBs were inter alia set up to make available institutional credit to the weaker sections of the society who had by far little or no access to cheaper loans and had per force been depending on money lenders. As small and marginal farmers comprise the major chunk of weaker sections of the society, the Committee are constrained to note that RRBs do not maintain separate details of number of accounts of small and marginal farmers. In the absence of such an information the Committee fail to understand as to how RRBs ensure credit disbursement to small/marginal farmers and other weaker sections of society as per

the guidelines issued by Government/RBI. The Committee desire that RRBs should take effective steps for compiling and maintaining data regarding credit facility extended to small and marginal farmers and other weaker sections of the society to monitor that credit facilities being provided by RRBs reach the targeted beneficiaries.

2.40 The Committee are also constrained to note that the percentage of loans to small and marginal farmers out of total loans disbursed by the RRBs has been declining steadily. While during 1998-99, the percentage of total loans disbursed to small and marginal farmers was 41.50%, it come down to 38.90% and 36.40% during 1999-2000 and 2000-2001 respectively. The Committee do not agree with the contention of the Ministry that progressive increase in the loans issued by RRBs year after year indicate increase in coverage of small and marginal farmers, since the factual position indicates just the reverse. Without furnishing any reason for the decline in the percentage, the Ministry have enumerated various steps taken/proposed to be taken for improving the credit flow, viz. introduction of Kisan Credit Cards, financing to Self Help Groups, financing of Government sponsored programmes, formulation of village credit plans, etc. to cover small and marginal farmers by RRBs in their area of operation. The Committee expect that above steps will help in improving lending of credit to small and marginal farmers by the RRBs. The Committee desire that RRBs should make

concerted efforts to educate the weaker sections of the society about the benefits of various lending schemes available to enable them to avail full benefit of the credit facilities. They stress that the RBI, NABARD and sponsor banks should keep a close watch on the performance of the RRBs to ensure extending of credit facilities to the weaker sections of society is improved.

2.41 As per the RBI guidelines, in case of direct agricultural advances, interest on current dues and instalments not falling due in respect of term loans should not be compounded. The Committee were, however, constrained to note that a number of RRBs were charging compound interest on agricultural loans. Even on the subsidy part, certain RRBs were charging compound interest, which was in utter violation of the guidelines issued by the RBI. Charging of compound interest in this manner is nothing but exploitation of the ignorance of borrowers. The Committee hold the view that this is nothing short of a criminal tresspass on the ignorance of borrowers which need to be dealt with severely. More distressing is the fact that even though in the case of a number of banks this irregularity was pointed out in the Inspection Reports by NABARD, neither had the RRBs taken any corrective measures in this regard nor was any serious note of it taken by the sponsor

banks. From the information furnished by the Ministry, it is evident that information in this regard is not even available with the Government. The Committee strongly deprecate such grave violations of the RBI guidelines by the RRBs and the inadequate monitoring of functioning of the RRBs by the regulatory and supervisory agencies, and more especially the sponsor banks. Such blatant violations of the RBI guidelines and exploitation of the ignorance of illiterate and simple loanees need to be viewed with due seriousness and corrective measures need to be taken thereon. They desire that, as promised by the representative of RBI, existing guidelines on charging of interest should be circulated by the RBI to all the RRBs and their sponsor banks stipulating strict compliance. The Committee also recommend that NABARD should issue specific instructions to all its Regional Offices directing them to compile information regarding violation of the guidelines by the RRBs in the region and do the necessary follow-up to ensure that interest charged from loanees in all cases is refunded to them under intimation to NABARD.

2.42 The Committee are constrained to note that reconciliation of inter-branch accounts of RRBs has been pending in a large number of RRBs. RRBs in the Southern region have the highest number of entries pending for reconciliation, the figure being 32,204 and the amount involved Rs. 13624.14 lakhs. The highest number of debit entries pending in RRBs for over six months were in the Eastern region followed by RRBs in the Southern region. The Committee stress on the imperative need for reconciliation of entries not only to provide better consumer services, accuracy and quick decision-making, but also to prevent the possibility of frauds in the RRBs.

2.43 The Committee note that a Working Group on Manpower and Planning in RRBs had recommended computerisation of headquarters, area offices and a minimum of 50% of branch offices of RRBs in a phased manner in five years. Accordingly, the Government of India has advised the sponsor banks to formulate RRB-wise action plan keeping in view the position of each RRB, infrastructural facilities available in the area and the business potential of the branches. The Committee note that Chalapati Rao

Committee also dealt with the question of computerisation of the RRBs wherein they have recommended that instead of leaving computerisation to individual RRBs, a national level body should be set up so that information technology process can be initiated in the RRBs in a smooth way. The Committee desire that this proposal be examined in all seriousness and action taken for setting up of such a national level body. They also recommend that NABARD, sponsor banks and the RRBs should formulate plans for computerisation of RRBs . NABARD should take a lead in preparation of the plans in such a manner that computerisation is completed within a period of three years.

2.44 The Committee note from the information furnished by the Ministry of Finance (Department of Economic Affairs – Banking Division) that as on 31.3.2001 the total Non-Performing Assets in all 196 RRBs amounted to Rs.2900.34 crore which constituted 18.34% of the total loan of Rs.15818.37 crore outstanding as on that date. A notable feature is that RRBs have been able to avert further growth of NPAs and a trend of decline in NPAs is visible. The level of NPAs came down from 34% in 1995-96 to 18.34% in 2000-2001. In absolute terms, however, the reduction is not so significant as the NPAs have come down from Rs. 3232 crore as on 31.3.1996 to Rs. 2900 crore as on 31.3.2001. The Committee note that at present only 4 RRBs have NPAs below 5%, which is considered to be the tolerable level under the present scenario. The Committee express their unhappiness over the high level of NPAs in the RRBs. It is a matter of serious concern that out of 196 RRBs, in as many as 192 RRBs the NPAs are much above the tolerable level.

2.45 The Committee note that several factors contribute to the accumulation of NPAs. Factors external to the banks and borrowers, such as change in Government's policy, natural calamities, could cause default in loans. Besides this, non-repaying capacity of farmers in the event of adversity, lack of infrastructure leading to poor marketability of products, non-remunerative prices prevailing in the period immediately following the harvesting of crops, direct credit in Government Sponsored Schemes, wilful defaults, etc. are other reasons for high NPAs. The Committee note that several steps in the form of close monitoring and supervision,

interaction with the borrowers to assess the hardships experienced by them in repayment of loans, compromise settlements, pre-determined policy, legal proceedings, etc. have been initiated by RRBs to bring down the NPAs. NABARD has also given the guidelines for One Time Settlement of NPAs on the lines of the guidelines issued by the RBI to the commercial banks. The Committee desire that all these measures should be pursued with utmost earnestness to bring down the NPA level to tolerable limits. It needs no emphasis that NPAs, in addition to adversely affecting the profitability of the banks, deprive other eligible borrowers from availing bank credit. The Committee, therefore, desire that RRBs should seriously address the question of reduction of NPAs through well-defined policies and strategies.

2.46 The Committee would like to point out that there are instances when accounts turn to NPAs not merely on account of willful default, but due to circumstantial default arising due to natural calamities, vagaries of weather, etc. The

Committee are of the view that circumstantial defaulters need to be dealt with separately from willful defaulters. If there is drought for three years continuously, then it should be mandatory on the bank to help a loanee by rephasing the old loans after waiving the interest component providing fresh loans and also by making available new technologies suiting to agroclimatic conditions.

2.47 The Committee note that action is taken as per staff regulations against the officers who sanction loans in violation of the procedures prescribed. RRBs should be impressed upon to take a serious view of the lapses in sanctioning of loans/advances and the laxity in post disbursement supervision for fixing accountability. RRBs also should consider the feasibility of introducing a system for internal audit of the loans sanctioned before their disbursement.

2.48 The Committee are of the view that recovery of dues by the RRBs is an important factor for the very survival of the

institution. This issue needs to be addressed effectively in order to arrest the mounting level of NPAs and for recycling the funds for socio-economic development. They note that the major hurdle in quick recovery of dues is non-pursuance of routine methods which could generate good results in recovery, communication gap between the top and junior levels of management of RRBs, the gap between planning and follow-up in the field level, lack of a clear-cut strategy for recovery, etc. Due to lack of adequate powers with the Recovery Tehsildars, it is noted that defaulters do not turn up for hearing of cases. Another major cause for slow recovery of NPAs is the prolonged legal process. There is need for strengthening the Revenue Department with powers for recovery as well as in execution of decrees obtained from the Court. There should also be better cooperation from officers of State Government. The Public Money Recovery Act needs to be made effective in all the States. The Committee also recommend that for speedy recovery of long-standing dues, Special Recovery Officers should be designated for RRBs. They desire that the scheme of One Time Settlement for NPAs in RRBs be encouraged for

expeditious settlement of pending cases under litigation and compromise settlement in old and chronic NPA accounts.

CHAPTER – III

Recapitalisation Process

3.1 Committee noted that RRBs whose deposit base eroded to a large extent were facing financial constraints. The main reason for erosion in the deposit base of these banks was their huge losses accumulated over a period of time. The root causes of RRBs incurring losses were low recovery, high NPAs, low productivity, high establishment cost, poor funds management, etc.

3.2 From the Preliminary Material the Committee noted that with an objective to strengthen RRBs on `Stand alone' basis, Government of India decided to recapitalise them in six phases covering 187 RRBs with an aggregate financial support of Rs. 2188.44 crore. While 158 RRBs had been fully recaptialised with reference to their financial requirements, 29 RRBs were partially recaptialised. Two RRBs viz.Malwa and North Malabar Gramin Bank did not require any recapitalisation support. Details of recapitalisation support provided to RRBs so far are as follows:-

Phase I (1994-95)

3.3 The Finance Minister, in his Budget speech (1994-95) on 28 February 1994, announced that the Govt. of India would take up 50 RRBs on `stand alone' basis for their comprehensive restructuring including cleansing their balance sheets. The RBI accordingly set up a committee under the Chairmanship of Dr. M.C. Bhandari, the then Chief General Manager, NABARD, to identify the 50 RRBs to be taken up for comprehensive restructuring in the year 1994-95. The Committee ranked the Regional Rural Banks on the basis of certain profitability/viability parameters. The Committee also felt that at least one RRB should be selected from each state. Accordingly, Committee recommended 50 banks for recapitalisation/restructuring during 1994-95. However, 49 banks were selected by Government of India. The Tripura Gramin Bank, which was recommended for restructuring by the Committee, was not considered in view of its very bad financial position (However, this RRB was selected during 1996-97 for recapitalisation support). A sum of Rs. 300 crore was sanctioned to these 40 Regional Rural Banks towards recapitalisation. Govt. of India released their share of Rs. 150 crore through Budget during the year 1994-95 and subsequently sponsor banks and also some of the State Governments released their proportionate shares to the RRBs.

Phase II (1995-96)

3.4 A budgetary provision of Rs. 300 crore was again made during the year 1995-96 by Govt. of India for provision of recapitalisation support to the next batch of RRBs to be selected for comprehensive restructuring. This was however scaled down to Rs. 223.57 crore in the revised budget estimate. The Committee was set-up by NABARD on the advice of Govt. of India to identify the RRBs for recapitalisation. The Committee consulted most of the State Governments in this regard. The Committee ranked the RRBs on the basis of performance indicators relating to profitability, growth and recovery, etc. Based on the recommendations of the Committee, 70 RRBs were selected. However, the actual disbursal of recapitalisation support was restricted to 53 RRBs in view of the reduction in the budgetary allocation as mentioned above. 2 RRBs (North Malabar and Malwa Gramin Bank) out of the selected 70 RRBs did not require any recapitalisation support. The Govt. of India released its share of Rs. 223.57 crore to the 53 RRBs during the year 1995-96. Sponsor Banks also released their proportionate share to these RRBs subsequently. Some of the State Governments also released their share in respect of these RRBs in the ensuing years.

Phase III (1996-97)

3.5 During the year 1996-97, Govt. of India made a budgetary provision of Rs. 200 crore towards recapitalisation of Regional Rural Banks and requested NABARD to identify the Regional Rural Banks for provision of recapitalisation support. Keeping in view the Basu Committee recommendations, NABARD recommended 34 new RRBs for recapitalisation support during the year 1996-97, besides additional dose of Rs. 100.45 crore to 16 RRBs selected under earlier phases i.e. 1994-95 and 1995-96. Accordingly, Govt. of India released their share of Rs. 200 crore to these RRBs. Sponsor Banks also released their proportionate shares to these RRBs.

Phase IV (1997-98)

3.6 The process of recapitalisation further continued during the year 1997-98. 15 new RRBs were sanctioned Rs. 80.45 crore towards recapitalisation besides an additional dose of Rs. 319.55 crore to 75 Regional Rural Banks selected under earlier phases. Government of India released their proportionate share of Rs. 200

crore to these 90 Regional Rural Banks. Sponsor Banks also released their proportionate share to these Regional Rural Banks.

Phase V(1998-99)

3.7 24 Regional Rural Banks were selected during the year 1998-99 for recapitalisation by Government of India and sanctioned Rs. 165.84 crore to these Regional Rural Banks. Besides an additional dose of Rs. 139.46 was sanctioned to 19 Regional Rural Banks selected under earlier phases. Government of India released their proportionate share of Rs. 152.65 crore to these 43 Regional Rural Banks through the annual budget for 1998-99. Sponsor Banks also released their proportionate share to these Regional Rural Banks.

Phase VI (1999-2000)

3.8 12 new Regional Rural Banks were sanctioned an aggregate recapitalisation support of Rs. 112 crore during the year 1999-2000. Further, an additional dose of Rs. 224 crore was also sanctioned to 43 Regional Rural Banks selected under earlier phases. Government of India released their share of Rs. 168 crore to these RRBs. Sponor banks have also released their proportionate share to these RRBs.

3.9 The Committee noted that while Govt. of India and Sponsor banks had fully released their proportionate share of recapitalisation support to RRBs, 13 State Governments are yet to release Rs. 112 crore in respect of 83 RRBs. On State Government share, Ministry of Finance further stated that the issue of non-release of State Governments' share of recapitalisation support to RRBs was being regularly followed up with the respective State Governments by NABARD/Sponsor banks and Government of India. The issue was also being deliberated in various fora like SLCRC and SLBC meets and State Governments were impressed upon for early release of their proportionate share of recapitalisation support to the RRBs. Besides, NABARD had also written to the various defaulting State Governments for early release of their share to the RRBs. Government of India had been apprised from time to time by NABARD in the matter. Govt. of Andhra Pradesh and Maharashtra had assured to release the funds to the RRBs during the current financial year. Govt. of Rajasthan, however, had cited the reason of budget constraint for non-release of their share to the RRBs during the current year. The response from the other State Governments was awaited.

3.10 After the recapitalisation support during 1996-97, 160 RRBs were making profit. The figures of profit making RRBs went up to 172 and loss making RRBs came down to 24 in 2001. On recapitalisation of rest of the RRBs, Ministry of Finance (Department of Economic Affairs – Banking Division) stated that depending upon the financial support extended by Govt. of India, sponsor banks and the State Governments, the partially recapitalised RRBs as well as 7 RRBs which remained to be covered under the programme (2 RRBs do not need any recapitalisation support) will have to be taken up for recapitalisation. The tentative requirement of these RRBs work out to Rs. 1100 crore to be contributed by their shareholders (Govt. of India/Sponsor Banks/State Governments).

3.11 On the profitability and viability of RRBs, the Secretary, Ministry of Finance(Department of Economic Affairs – Banking Division) stated during his evidence before the Committee as under:-

> "As you know, sir, over a period of time, since 1975, the number of RRBs have increased from five to 196. They have borne ups and downs with regard to their profitability and viability. With the capital infusion by the Government and various other measures taken either by RBI or NABARD over a period of time, the number of RRBs which have come out of red and started making profits has touched almost 80 in number. There are some, leaving aside 26, the number will be about 70 or so which have still accummulated losses but are making operative profits. About 26 RRBs are those RRBs which are still having some problems, which require a little more diagnostic approach. This is a very good sign which has happened over a period of time that the RRBs themselves are on stronger footing as far as their viability is concerned."

3.12 On unviable/loss making RRBs, the Ministry in their note stated as under :

"Although RRBs are being restructured on `stand alone' basis. Still some of the RRBs may not attain viability. The separate dispensation is therefore, required to be worked out for such loss-incurring RRBs. Recently, Government of India appointed a Working Group under the Chairmanship of Managing Director, NABARD to review and suggest amendments in the RRBs Act.

1976, which will redefine the role of RRBs in the changed scenario."

3.13 The Committee noted that Chalpati Rao, Committee has suggested classification of RRBs in 4 categories on the basis of their profitability. Elaborating on the issue, Shri Chalpati Rao stated during his evidence as under:-

"As far as the "Change in capital structure and ownership pattern of RRBs" is concerned, we felt about introduction of capital adequacy and norms in a phased manner with the commercial banks. Presently, the pattern is somewhat rigid, i..e, 50:35:15. So, we felt that it needed more flexibility so as to enable the healthy RRBs access to capital market, free financial and management resources of the Government of India and others for nursing unhealthy RRBs. That is our idea. If they go to the private sector – it may or may not be acceptable. But this is the professional opinion of the Working Group – with the limited resources which are available, they will be available in nursing the unhealthy RRBs.

So, on this pattern, we have broadly classified the various RRBs into four categories. First category is Category (A). In this category are the RRBs with profits for the past three consecutive years and no accumulated losses.
About 80 such RRBs are coming. The position is not as dismal as the hon. Committee has indicated. The position is as on 31st March, 2001.

Second category is Category (B) where we have got the RRBs with the current profits during the last three consecutive years but they have some accumulative losses. About 43 such RRBs are there in this category.

Third category is Category (C) where loss plus erosion is not exceeding 10 per cent of the deposits. It eats away the paid up capital, reserves and then it comes to the deposits. So, up to 10 per cent of the deposits are eroded.
Fourth category is Category (D) where 40 such RRBs are coming. This is a very bad category. This is a threat to the society. Here, loss plus erosion is exceeding 10 per cent deposits. It is chronically a loss-making category. Deposits of RRBs are increasing, may be, due to the ignorance

of rural folk also, because they do not know that this particular RRB is a viable one or not. So, they are going on depositing their money with that RRB with the result the growth rate on deposits, some times, is 20 to 25 per cent.

We have to see that the depositors' interests should not be affected. There are some 33 such banks. So, we have given different treatment in these four categories of RRBs as to what should be the features and roles of these RRBs.

Sir, we have dispensed with the concept of 'sponsor banks' which has been indicated in the RRB Act. Now, we feel that instead of 'sponsor banks', it should be 'sponsor institutions', so that who are interested in a financial institution– it may be an NGO also – and if they want to take over these banks, even they should be in a position to take these banks.

So, we have said that instead of 'sponsor banks' it should be 'sponsor institutions'. That is what we have said."

3.14 The witness further added:-

"……………..The treatment we want to give to different banks is like this. First is Category (A) under which comes the banks which are having profits for the last three consecutive years and with no accumulative losses. The Central Government shareholding will be diluted to 33 per cent by transfer to 17 per cent to be in favour of sponsored institutions. That means, sponsored institutions have got (35 percent plus these 17 per cent) 52 per cent. They will be the sponsored institutions. They will have full responsibilities for the banks. As you said, they are there at six or seven places handling the RRB and nobody is responsible for that. So, we want one institution to be responsible for this. That is why we have made these suggestions.

In the case of Category B RRBs, what we said was that majority ownership should be placed in the hands of the sponsor institutions by divestment of 17 per cent of shares of the Central Government and they should take care of them. If the position improves, they can graduate to Category A RRBs and then, ultimately they can also have the same features of Category A banks.

In the case of Category C RRBs, we have not envisaged any change in the ownership pattern. Supervisory authority is to initiate the process of amalgamation of such RRBs so that they can become bigger institutions thereby they can become more healthy.

In the case of Category D RRBs, the RBI Act does not provide for exit route for the RRBs. In fact, Category D RRBs are a threat to the depositors. RBI should ensure that no bank operations are conducted detrimental to the interests of the depositors. That is the main object of any inspection. So, when they are a threat to the depositors, there should be an exit route for this category of banks. But if necessary, by any chance, if the Central Government or the State Government feels, for some social ground despite perpetual non-viability, that these RRBs should serve – for example the RRBs in the North East or in some hilly areas-although they are not viable, then it should be the responsibility of the Central Government or the State Government. The sponsor bank's stake should also be taken over by them. They can engage the sponsor institution for managing the bank, of course, on some nominal charges. Since they are dispensing things for social sector, underprivileged sector in an underprivileged area, whatever losses are there in future, that also should be made good by the State Government and the Central Government. In effect, they become Government banks and the government should take up full responsibility for such banks. These are the recommendations as far as equity is concerned."

Accountability of RRBs

3.15 Sponsor banks of RRBs provide managerial expertise, financial and training support to RRBs from time to time. NABARD supervises and inspects RRBs to see that they work as per their mandate. RBI as a regulatory authority provides guidelines to RRBs from time to time. State Government besides contributing to equity of RRBs also provide infrastructural support to them. Ministry of Finance (Department of Economic Affairs - Banking Division) also oversee the functioning of RRBs from a macro level. Despite having support, advice and supervision I from as many as five agencies, the Committee noted that RRBs had not been able to come up to the level of expectation as far as their performance was concerned.

3.16 Giving reasons for poor performance of most of the RRBs despite being guided by a number of agencies, the Secretary, Ministry of Finance(Department of Economic Affairs- Banking Division) stated during his evidence before the Committee stated as under:

"………………You have mentioned in your remarks that there are six agencies which are guiding the RRBs and yet the situation is not good. How do we tackle the multiplicity of it? That is another problem. There, this Group has made certain recommendations with regard to the role of the RBI and the NABARD. We will be examining them and going into that."

3.17 On the role of sponsoring institution, the witness stated as under:

"……………..If you are having RRBs which are being sponsored by the sponsoring institution, then the sponsoring institution should take care of them and they should get right type of staff, directions and things like that."

3.18 On regulatory and supervisory system of RRBs, Shri Chalpati Rao, who headed the Committee set up inter-alia to examine and recommend legal, regulatory, supervisory, institutional and technological dimensions for making RRBs an effective instrument for development and growth of rural economy stated as under:

> "The most important thing is regulatory and supervisory systems. Here also a lot of concern was expressed. We have indicated a few things which according to us are very important. Regulatory framework for RRBs to be on the lines of those for commercial banks with provision for such bank specific relaxation as necessary for specific time period. It should be on par with commercial banks and RRBs should be subject to statutory norms of licensing. Existing RRBs or those created out of amalgamation of two or more existing RRBs may continue doing banking business during the pendency of consideration of their applications for licence. This is an important thing which I want to say because RRBs have come by virture of an enactment . They are born with a licence, with a scheduled status. So, neither RBI nor NABARD can do anything. Suppose they do not do well, there is nothing to admonish them. We cannot even say that we de-licence or de-scheudle you. So, now

we are saying that the existing RRBs should also be made to apply to the Reserve Bank for a licence and then based on the performance, RBI over a period of time can grant licence. But pending grant of licence these RRBs will continue to function. It is not that they are closing the RRBs today or tomorrow. Pending grant of licence or rejection they will continue to function. This is a far-reaching recommendation which we have made.

Regulation under the Banking Regulation Act may continue with the RBI but the supervisory aspects to be handled by one supervisory authority. That supervisory authority need not necessarily be NABARAD alone but to be notified by the Reserve Bank and the Government of India. The Working Group said that for the time being NABARD can be supervisory authority and it should have adequate powers, including issuance of directions for compliance of provisions of RRBs, imposition of penalties for persistent defaults and omissions in compliance of observations and for non-receipt of statutory returns. Statutory returns are now submitted to the regulatory authority, of course, with a copy to the supervisory authority. But we do not have those powers. These are some of the powers that should be given to the supervisors whether NABARD or some other institution and there should be a clear-cut demarcation between supervision and regulation. We have also felt that the supervision by the sponsoring institution to be with the ownership concern and in a nature of periodical scrutiny of the progress of RRBs sponsored by it.

The most important thing we have made as far as supervision and governance is concerned, is the self-supervisory system, it is not existing now, to be instituted and placed under an audit committee of the Board which has to be empowered for taking decisions on various aspects of efficiency and self-supervisory mechanism. It is required for any institution. This should be there with an audit committee. They should have proper systems and control; internal audit, internal inspection and concurrent audit which is not there at all in any RRB. It is a must for all these institutions. All this should be done under the umbrella of audit committee which will be a Board level committee."

Frauds in RRBs

3.19 From the preliminary material furnished to the Committee it is noted that information with regard to only 22 RRBs where frauds cased had occurred, were available with Ministry of Finance. The total number of accounts in such fraud cases was 95 in number amounting to Rs. 296.86 lakhs. The number of accounts in which recovery effected were 29 with an amount of Rs.57.97 lakhs, which accounted to 20% of the total amount reported in fraud cases.

3.20 RRB wise details of fraud cases, number of accounts, amount of fraud and amount of recovery in 21 RRBs as on for which data was given by the Ministry were as under

SL.	RRB NAME	STATE	SPON BANK	FRAUD		RECOVERY	
				Accounts	Amounts	Accounts	Amounts
1	TULSI GRAMIN BANK	UTTAR PRADESH	ALLAHABAD	3	46.02	0	0.00
2	MEWAR ANCH GRAMIN BANK	RAJASTHAN	BANK OF RAJASHTAN	1	1.06	1	1.06
3	CHICKMAGALUR-KODAGU	KARNATAKA	CORPN	1	4.90	1	4.90
4	JAMMU RURAL BANK	JAMMU & KASHMIR	J&k BANK	9	15.06		
5	KAMRAZ RURAL BANK	JAMMU & KASHMIR	J&K	5	98.90		9.83
6	FARIDKOT-BHATINDA KSH	PUNJAB	P&S BANK	3	12.65	2	2.63
7	JAMNAGAR GRAMIN BANK	GUJARAT	S.B.S.	1	1.51	1	1.51
8	JUNAGADH-AMRELI GRAMIN BANK	GUJARAT	S.B.S.	1	5.47	1	5.47
9	RAYALSEEMA GRAMIN BANK	ANDHRA PRADESH	SYNDICATE	22	13.07	14	6.24
10	SREE ANANTHA GRAMIN BANK	ANDHRA PRADESH	SYNDICATE	6	7.11	3	7.03
11	PINAKINI GRAMIN BANK	ANDHRA PRADESH	SYNDICATE	6	6.12		
12	MALAPRABHA GRAMIN BANK	KARNATAKA	SYNDICATE	12	14.35		13.7
13	BIJAPUR GRAMIN BANK	KARNATAKA	SYNDICATE	5	1.34		0.61
14	NETRAVATI GRAMIN BANK	KARNATAKA	SYNDICATE	1	2.72		
15	VARADA GRAMIN BANK	KARNATAKA	SYNDICATE	3	45.81		
16	NORTH MALABAR GRAMIN BANK	KERALA	SYNDICATE	4	1.54	4	1.54
17	PRATHAMA BANK	UTTAR PRADESH	SYNDICATE	1	1.07	1	0.95
18	GAUR GRAMIN BANK	WEST BENGAL	U.B.I.	4	3.39	1	2.41
19	MALLABHUM GRAMIN BANK	WEST BENGAL	U.B.I.	3	10.15		
20	SAGAR GRAMIN BANK	WEST BENGAL	U.B.I.	3	2.82		
21	VISVESHWARAYA	KARNATAKA	VIJAYA	1	1.80		

	GRAMIN BANK						
			Grand Total	95	296.86	29	57.9

3.21 Asked as to whether enquiries were initiated to find out the culprits, fix the responsibility and action taken against the erring officials/individuals, for such frauds, Ministry of Finance in their note furnished to the Committee gave following details in respect of 15 RRBs:

Kamraz Rural bank (Sponsor Bank : Jammu & Kashmir Bank Ltd.)

FIR with Police Station Trehgam lodged and registered under No. 139/98 dated 2 October, 1998. The culprit official - in-charge expired during policy custody. The matter, therefore, is being investigated by crime branch J & K Police Headquarters, Srinagar. However, the matter was recently referred to CBI for investigation who in view of the death of main accused have stated that investigation by the CBI will serve no purpose. However, nodal officer of district stands chargesheeted. This is in the case of fraud of Rs. 40,49,599.63 at Kralpora branch of the bank.

FIR with police station was lodged/registered under FIR No. 70/98. Chalan was produced before competent court, main accused were placed under suspension. Disciplinary action is initiated against concerned branch manager and the clerk. This is in the case of fraud of Rs. 12,37,430/- in the Pringal branch of the bank.

Branch Manager and Cashier cum Clerk are placed under suspension. FIR lodged with CBI, Jammu and registered under 7(A)/99. Matter is under investigation. Departmental investigation is completed. Disciplinary action is being initiated, however, final report from CBI is awaited. This is in the case of fraud of Rs. 26,83,000/- in the Reban branch of the bank.

A loss of Rs. 20,000/- caused against fraud amount of Rs.3,20,000/-being amount of fake credit advice, now fully recovered. FIR is lodged with state crime department branch office, Srinagar. Police investigation is not concluded as yet. Main accused in the matter is placed under suspension. Departmental investigation is completed. Disciplinary action against officials involved in the affair is being initiated. This is in the case of fraud of Rs. 3,20,000/- in Ogmuna branch of the bank.

FIR is lodged with state crime department of 19 July 2000 and registered under No. 20/2000. Police Crime Branch is yet to conclude the investigation. However, departmental investigation has been completed. Main accused are placed under suspension. Disciplinary action against officials involved in the fraud is being initiated. This is in the case of fraud of Rs. 16 lakhs in Safapora branch of the bank.

Jammu Rural Bank (Sponsor Bank : Jammu & Kashmir Bank Ltd.)

In respect of fraud committed at Khour branch to the tune of Rs. 14,42,700/-, the concerned employees have been placed under suspension. The penalty had been awarded under staff service regulations of the bank, while departmental enquiry had been completed. In the case fraud of Rs. 14,43,100/-, sanction order has been ordered to CBI for prosecution of the concerned employees.
In the case of fraud of Rs.51,000/- the concerned employees have been awarded the penalty under registration No. 30(1) of RRBs Staff Service Regulation, 1980 (amended upto 1982), where the departmental enquiries had been completed.

In the case of fraud of Rs. 12,000/-, the chargesheets have been issued.

North Malabar Gramin Bank (Sponsor Bank :Syndicate Bank)

The frauds were mostly detected during inspection of branches. Details investigations were conducted and accountability fixed on the erring officials without any delay. In the four reported cases amount involved in the fraud have been made good fully, and disciplinary action initiated against the officials/individuals and punishment is awarded.

Netravati GraminBank (Sponsor Bank : Syndicate Bank)

Two employees were suspended, departmental enquiry held against them. Departmental action is in the final stage.

Bijapur Gramin Bank (Sponsor Bank :Syndicate Bank)

In the case of fraud of amount of Rs.57,000/-,entire amount was recovered and after conducting detail enquiry the concerned staff was dismissed from the service. In case of fraud of Rs. 22,000/- after conducting details enquiry concerned staff was dismissed from the services. Bank has also lodged police complaint for recovery of the fraud amount. In the case of fraud of Rs. 33,000/-, the entire amount was recovered and the concerned staff was kept under suspension and punished by awarding stoppage of two increments with cumulative effect. In case of fraud of Rs. 4,000/- the entire amount was recovered. The concerned staff was kept under suspension and was punished by awarding stoppage o two increments with cumulative effect. In case of fraud of Rs. 18,000/-, the amount was recovered fully and concerned staff was kept under suspension. The concerned staff was punished by awarding reduction three increments from present scale.

Pinakini Gramin Bank (Sponsor Bank : Syndicate Bank)

In case of fraud of Rs. 3,11,982/- , the officer was removed from the services of the bank, in the case of an earlier chargesheet relating to irregularities committed by at Gururamkonda branch. In case of fraud of Rs. 828/-, the explanation submitted by the employee and the officer are under scrutiny. In case of fraud of Rs. 51,685/-, the employee was dismissed from the services of the bank. In case of fraud of Rs.27,300/-, the employees was chargesheeted and punishment awarded after departmental enquiry. In case of fraud of Rs. 1,74,418/-, the departmental enquiry is in progress and in case of fraud of Rs. 45,087.10, the officer concerned was suspended from the services and chargesheeted.

Sree Anantha Gramin Bank (Sponsor Bank : Syndicate Bank)

All the staff members involved in the three cases of fraud of Rs. 2,72,000/- were placed under suspension immediately after the fraud came to light. Chargesheet were issued and departmental enquiry were conducted/completed. In one case the officer involved was degraded from officer scale to scale I. In the second case, clerk-cum-cashier involved was awarded the punishment of degradation of basic pay by three increments. And in the third case the clerk cum cashier involved was removed from the services of the bank. In the case of fraud of Rs. 3,75,000/-, the manager who displayed gross negligence and caused for misappropriation of amount was placed under suspension. Chargesheet was issued and departmental enquiry was conducted. Subsequently the amount was recovered, the officer was recovered, the officer was awarded the punishment of degradation of basic pay by one increment. In case of fraud of Rs. 64,000/- the manager and clerk cum cashier are placed under suspension. Departmental enquiry is initiated. Action will be contemplated after the completion of enquiry.

Malaprabha Gramin Bank (Sponsor Bank :Syndicate Bank)

In the case of fraud of Rs. 7,41,887/-, fraud is committed by customers. Legal notice and Civil Suit filed against customers. In the case fraud of Rs.

6,92,715/-, Departmental enquiries initiated on erring officers/employees and appropriate punishment imposed. In case of KD agents, agency is terminated.

Tulsi Gramin Bank (Sponsor Bank : Allahabad Bank)

Both case of fraud of Rs. 38,90,000/- and Rs. 7,12,000/- are pending for decision. Enquiry is in progress.

Prathama Gramin bank (Sponsor Bank :Syndicate Bank)

Chargesheet has been issued erring employees. Departmental enquiry is in progress. Amount of Rs. 95,200/- has been recovered.

Sagar Gramin Bank (Sponsor Bank : United Bank of India)

The erring sub staff was placed under suspension on 29 July, 1997 for the amount of fraud of Rs. 95,661/-. After completion of the entire process of departmental enquiry the concerned sub staff was punished by lowering down to the initial stage of pay and entire amount of loss with interest was being realized from monthly salary of the concerned staff. It was also detected that such fraud was occurred due to negligence of concerned branch manager who was also chargesheeted and future action would be taken up shortly. In case of fraud of Rs. 45,000/- enquiry is in progress and necessary action would be taken up shortly after completion of the ongoing enquiry. In case of fraud of Rs. 1,41,000/- the preliminary investigation was conducted on 20 March, 2001 which detected misappropriation of fund by the branch manager. On the basis of report of the preliminary investigation, explanation of the erring branch manager has already been called for.

Gaur Gramin Bank (Sponsor Bank : United Bank of India)

In case of fraud of Rs. 97,930/-, FIR was lodged and the depositor was arrested by the police. In case of fraud of Rs. 2,40,755.95, the amount was fully recovered and punishment was awarded. FIR lodged against mini deposit agent. Branch Manager was punished.

Mallabhum Gramin bank (Sponsor Bank : United Bank of India)

For an amount of fraud of Rs. 1,63,000/-, the concerned employee has been dismissed from the services and insurance claim has been lodged. FIR has been lodged. Policy Authority has started investigation. In case of the fraud of Rs. 3,66,000/-, provision for the entire amount has been made. In case of fraud of Rs. 4,86,000/-, the concerned officer has since expired, insurance claim has been lodged.

Varada Gramin Bank (Sponsor Bank : Syndicate Bank)

Detailed investigation of all these fraudulent transactions/misappropriations have been conducted and departmental proceedings have been initiated against the officials of the bank involved in the fraud/connected to misappropriation of funds. Departmental enquiries were held against eight officials of bank after issue of chargesheet, out of which two staff members have been awarded with punishment of dismissal from the services and appropriate punishment like stoppage of increments, lowering the stage of basic pay have been awarded to the other employees.

Rayalseema Gramin Bank (Sponsor Bank : Syndicate Bank)

Out of six fraud cases involving Rs. 1,38,000/- during the year 1998-99, an amount of Rs. 1,33,000/- in four cases had been recovered from culprits. In respect of other two cases one employee to who chargesheet was issued for Rs. 4000/- was dismissed from bank service and in one case disciplinary action was initiated. Out of seven fraud cases involving Rs. 5 lakh during 1999-2000 an amount of Rs. 3 lakh in six cases have been recovered and in respect of one account the employee responsible was dismissed from bank service. Out of nine frauds involving Rs. 6,69,000/- detected during 2000-01 an amount of Rs. 1,91,000/- have been recovered from culprits and in respect of three cases one case involving Rs. 2,45,429/- outside the bank which committed by JK agent (daily deposit collection agent), bank has suspended the JK agent. In another case the staff member who has misappropriated the cash remittance amount committed suicide. In third case the officer and cashier responsible for misappropriation of Rs. 82,471/- were kept under suspension."

3.22 From the above, it is noted that in most of the cases disciplinary action against officials involved in the fraud has not been initiated so far. In many cases it has been noted that the penalty accorded for misappropriation/frauds was merely stoppage/reduction of increment or degradation of pay.

Audit and Inspection of RRBs.

3.23 The performance of RRBs is reviewed by the Govt. of India through half yearly review meetings conducted by the Banking Division, wherein all sponsor banks, RBI and NABARD participate. Progress of certain important items of work like financing through Self Help Groups, issue of Kisan Credit Cards, etc. is also reviewed in the meetings.

3.24 NABARD, through its Regional Offices, reviews the performance of RRBs (State-wise) in regularly held State Level Coordination and Review Committee (SLCRC) meetings. At the Head Office Level, the performance is reviewed through the periodical statements on the basis of their audited annual statement of accounts and other information received through their annual reports. In addition to this, NABARD nominee Directors review the performance of their RRBs on an ongoing basis. He provides necessary feedback to the Regional Office of NABARD, NABARD, as a statutory responsibility, also conducts inspection of Regional Rural Banks and also ensures follow-up action in respect of the major observations therein.

3.25 The sponsor banks which hold full responsibility in respect of operational and managerial matters of RRBs, hold review meetings on a quarterly basis. The RBI and NABARD representatives participate in the half yearly meetings on select basis and have direct discussion with feedback from the Chairman of the RRBs. The sponsor banks are responsible for finalisation of the Development Action Plans for each of their RRBs and they also sign Memorandum of Understanding with them on an annual basis. The performance of RRBs under DAP/MOU is reviewed in the quarterly review meetings and mid-term corrections needed, if any, are suggested for incorporation in the plan. The sponsor banks, being a major shareholder, also conduct management audit of their RRBs. Necessary follow-up action in respect of t major observations/findings of such audit is also taken by the sponsor bank.

In addition to the above, the RRBs, as per the provisions of the RRBs Act, 1976 are required to appoint Statutory Auditors for ensuring independent verification of the correctness of their accounts. The irregularities observed in the audit are required to be rectified/ removed from the system.

3.26 Some of the important observations made by auditors who audited the books of account of RRBs for the year 1999-2000 were stated to be as under:-

(i) Provision for gratuity not made based on Actuarial valuation. No gratuity fund has been created.

(ii) Calculations of bonus were made on arbitrary and ad-hoc basis.

(iii) Incorrect classification of advances resulting in incorrect provisioning in NPA accounts.

(iv) Reconciliation of old and current unadjusted items in respect of suspense, sundry deposits interest accrued, payment orders, overdue bills accounts and inter-branch reconciliation remained `not cleared'

(v) At some branches, reconciliation of subsidiary records with General Ledger Balances yet to be done.

(vi) Inter-Bank reconciliation with most of the branches of Sponsor Banks not complete. Overall impact of the above could not be ascertained by the Auditors.

(vii) Branches did not maintain proper documents regarding advances.

(viii) Interest was over/under charged in many cases.

(ix) Prescribed revised rates of interest not used by most of the branches in calculating interest.

(x) Proper system of periodical verification or inspection of stock securities, equipments and machinery is not in vogue. No Physical Verification Register maintained.

(xi) Cash Credit A/cs are not renewed periodically and the facilities are availed against old sanctions.

(xii) In many branches, balancing of books and reconciliation of accounts with balance in General Ledger are pending.

(xiii) NPA ledgers have not been properly maintained at many branches.

(xiv) Documentation in respect of few advances has become time barred due to non-revival.

(xv) Some of the banks had invested in non-convertible debentures of some companies. Default in payment of principal and interest has made the banks classify the investments as sub-standard and provide for, as per the NPA norms.

During the discussions by the Estimates Committee with the representatives of various RRBs, it was noted that many RRBs had not initiated action to rectify the deficiencies pointed out by NABARD in their inspection reports.

SALARY OF RRB EMPLOYEES

3.27 The Committee noted that though RRBs were established as low cost institution, consequent to their wage revision which brought them at par with the commercial banks low cost profile of these banks has lost over the period of time. Giving the background which led to revision of pay scale of RRBs, the Ministry of Finance(Department of Economic Affairs) in the note furnished to Committee stated. as under:

> "In terms of Section 17 (1) of the RRBs Act, 1976, the salary structure of the RRB employees was determined by the Government of India having due regard to the salary structure of the employees of the State Government in comparable position. However, the RRB Employees'

Association had filed writ petition in the Supreme Court of India demanding parity with the sponsor banks on 'equal work equal pay' principle. The Supreme Court directed the Government of India to constitute a National Industrial Tribunal and refer the dispute to it. Accordingly, the Government constituted the Tribunal which examined the issue and pronounced its Award on 30 April 1990, which inter-alia held that the employees of the RRBs are entitled for the pay scales, allowances and other benefits on par with the employees of comparable levels in corresponding posts of respective sponsor banks. The Government accepted the decision of the Award and revised the pay of RRB staff with effect from 1 September, 1987. However, the actual payment of revised pay was done with effect from 1, January 1991. The Employees Association agitated for payment of arrears for the period from 1.9.87 to 31.12.1990 and subsequently moved to the Supreme Court where Government of India pleaded that in view of the poor financial position of the RRBs as depicted on 31.3.92, wherein 172 RRBs were running in losses and that the accumulated losses of all the RRBs worked out to Rs. 617 crore excluding around Rs. 220 crore towards arrears, the GOI asked for extension of time for payment of arrears. The Supreme Court directed the GOI to prepare a Scheme for payment of arrears. Accordingly, GOI prepared the scheme and paid the arrears in four annual instalments from 1995 to 1998.

Meanwhile, subsequent wage revisions took place in commercial banks in 1992 and 1997-98. The Associations again agitated for the wage revision on par with sponsor banks and moved to the various High Courts. The High Court of Karnataka and Kerala issued the judgement in favour of employees Association. These decisions were challenged by GOI in Supreme Court and suggested some via media for wage revision by filing an interlocutory application (IA) to the appeals. Based on the IA, the Supreme Court directed the GOI to revise the pay scales on par with sponsor banks. Accordingly, the GOI issued the orders on 11.4.2001 wherein it has been provided that

i) Pay Scales of RRBs would become equal to their counter parts in commercial banks w.e.f. 1.4.2000.

ii) While Basic Pay and DA stand revised with retrospective effect HRA,CCA and other allowances have been given prospective effect.

As per GOI's orders, 33 RRBs which have incurred operating losses as on 31.3.2000 may not be able to implement the revision of pay structure. Nearly 109 RRBs may be able to make current payment of increased salary in full and 54 RRBs may be able to make payments after earning sufficient operating profit.

Consequent upon implementation of NIT award extending parity to the RRB staff in pay scale and allowances with the sponsor banks, the RRBs had to bear the burden of Rs. 220 crores towards the arrears pertaining to IV and V Bi-partite settlement and about Rs. 425 crore will be the additional burden towards arrears pertaining to the period from 1.11.92 to 31.3.2000. This clearly shows that the RRBs are no longer considered as low cost institutions. Further, the concept of low cost institutions was valid till the pay structure of the RRB was linked to the pay structure of the State Governments and the operations of the RRBs were confined to the target group. Presently, the RRBs are considered on par with commercial banks' rural branches.

While the RRBs could bear the burden of arrears pertaining to IV and V Bi-partite Settlement through turn around strategy of restructuring, the increase in the establishment costs due to wage revision on par with VI and VII Bi-partite Settlement of commercial banks is expected to be met only through the profits of the RRBs. However, the concept of linking of wage revision as well as payment of arrears to the profitability of the RRBs has been challenged by the Association in the Supreme Court. In case, the Supreme Court upholds the directions of GOI regarding payment of revised salary and arrears, the RRB employees may have to strive for attaining viability for getting the arrears and revised pay scales. Otherwise, the stakeholders of the RRB may have to come forward for sharing the additional burden on account of revision of salary."

3.28 On remuneration to staff of the RRBs, Shri Chalpati Rao stated during evidence before the Committee as follows:-

"Another most important recommendation is remuneration of staff to be determined by the Board with prior approval of sponsor institution and in doing so, the Board to have due regard to the standard norms of work performance, paying capacity of the financial institution – which is the most important thing – and sustainability of the concerned RRB. Right now, because of the Supreme Court judgment and also the judgment of the earlier Tribunal, although in the Act it is indicated that the pay scales should be at par with the State Governments, more or less the salaries, allowances, etc. are now at par with the sponsor banks. The RRBs can pay or not, that is not the concern of anybody. But it should be paid to them. Sir, the position of RRBs in 2001 was somewhat good. But once the arrears of salaries are paid in 2002, the position may not be that bright for the RRBs because of the Supreme Court ruling. We said that it should be based on the paying capacity of the bank."

Posting and Transfer of RRB Employeesr

3.29 In a note furnished to the Committee, the Ministry of Finance(Department of Economic Affairs- Banking Division) stated that as per the provisions of RRBs Staff Services Regulation, staff members are liable for transfer to any of the offices or the branches of the RRB. With a view to prevent frauds and embezzlement there is a general policy in the banking industry for rotation of staff after a stipulated interval of 2 to 3 years. The policy regarding postings and transfer is decided by the Board of Directors and is implemented as per the need and convenience of the RRB. Neither have Government of India nor NABARD/RBI have issued any uniform guidelines in this regard.

3.30 On region/inter-region/district transfers among RRB employees, Ministry in their note stated that the existing Staff Service Regulations do not provide for transfer of employees from one RRB to another RRB. As such the staff members of an RRB could be transferred in the area of operation of their own RRB which extends to generally two to four districts (barring the exceptional cases of one or more than one districts). However, Government of India being the competent authority had issued the instructions on 15 June, 1999 to fill up the vacancies caused due to promotions as well as natural wastage by re-deployment of staff from one branch to another with the same RRB and from one RRB to another RRB where the sponsor bank is the same. In order to operationalise these instructions the guidelines are being finalised by the Ministry in consultation with the sponsor banks and the same will be issued shortly.

Training

3.31 Under the RRBs Act, the basic responsibility of training the RRB personnel has been assigned to the Sponsor Banks. As of now, the staff of RRBs are trained through the training establishments of sponsor bank and many sponsor banks have opened a separate channel for training RRB Staff. Besides the RRBs Staff are also deputed for training to the NABARD sponsored training establishments like Bankers Institute of Rural Development (BIRD) at Lucknow, Regional Training Colleges of NABARD at Bolpur in West Bengal and at Mangalore (Karnataka) apart from RBI's College of Agriculture Banking at Pune. The programmes of BIRD and CAB are priced while the programmes of RTCs are fully funded by NABARD and the participants do not have to pay for it.

3.32 Various Committees set up to examine the working of RRBs also impressed upon the need for training for RRB Staff. Kelkar Committee on RRBs had observed that lack of adequate training to the staff had affected the quality of business and efficiency level of RRBs. Bhandari Committee on Restructuring of RRBs had remarked that skill development of RRB personnel is critical for the success of the restructuring process. Training is considered to be one ingredient which can bring about a change in the mindset of concerned personnel and orient them to the task of restructuring their institutions.

3.33 Asked to indicate the total number of RRB staff trained in different training establishments of NABARD and RBI, Ministry in their note gave following figures for three years :

	No. of Officers		
Institutions	**1998-99**	**1999-2000**	**2000-2001**
BIRD	1,052	2,549	2,321
RTC(M)	294	278	511
RTC(B)	515	584	1,087
CAB	725	970	1,005
Total	**2,586**	**4,381**	**4,924**

3.34 However, during discussions by the Estimates Committee with the representatives of various RRBs, it was noticed that many banks, Committee noted that most of the senior ranking officers of RRBs were not aware of the philosophy behind setting up of RRBs. The Committee impressed upon the need for imparting constant training to staff of RRBs so as to improve their commitment level. In reply, a representative of RBI stated during evidence as follows:

“From the Reserve Bank of India, from our College of Agricultural Banking in Pune we have been conducting a large number of Training Programmes for the staff of the Regional Rural Banks and I will ensure that we would continue to do that for the benefit of the staff of the RRBs.”

OBSERVATIONS/RECOMMENDATIONS

3.35 The Committee note that with the objective of strengthening RRBs and bringing them on stand alone basis, the Government had decided to recapitalise them in six phases-covering 187 RRBs with an aggregate financial support of Rs.2188.44 crore. While 158 RRBs were fully recapitalised with reference to their financial requirements, 29 RRBs were partially recapitalised. Two RRBs, viz. Malwa Gramin Bank and North Malabar Gramin Bank did not require any recapitalisation support. The Committee note that while the Central Government and the sponsor banks had fully released their proportionate share of recapitalisation support to the RRBs, 13 State Governments were yet to release a total sum of Rs. 112 crore in respect of 83 RRBs. Reportedly the sponsor banks, the Ministry of Finance and NABARD have been regularly following-up the matter with the respective State Governments for early release of their proportionate share of recapitalisation support to the RRBs. The matter has also been discussed in various fora like State Level Coordination and Review Committee(SLCRC) and State Level Bankers Committee meetings. The Committee desire that the

matter may be vigorously pursued with the State Governments concerned to impress upon them to release their share of recapitalisation support to the RRBs.

3.36 After providing the recapitalisation support, the Committee note that the number of profit making RRBs went up to 172 in 2001 and number of loss making RRBs came down significantly. The Committee note that there is need for recapitalisation of the remaining loss making and partially recapitalised RRBs which will depend upon the financial support extended by the Government of India, the sponsor banks and the State Governments. The tentative capital requirement of these RRBs worked out to Rs.1100 crore. According to the Ministry, with the capital infusion by the Government and various other measures taken by the RBI and NABARD over a period of time, the number of RRBs which have come out of losses and started making profits is around 80. About 70 RRBs are still making operative losses. 40 RRBs are still having problems and require a more pragmatic approach. The Committee desire that appropriate steps should be taken for providing recapitalisation support to the loss making and

partially recapitalised RRBs for making them viable. Chalapati Rao Committee has suggested change in the capital structure and ownership pattern of RRBs. The Committee desire that the recommendations made by Chalapati Rao Committee should be considered in all their ramifications and appropriate steps be taken for strengthening the RRBs bringing them on stand alone basis so that they may turn into healthy institutions.

3.37 The Committee note that the RRBs are guided and supervised by a number of agencies. Sponsor bank provides managerial expertise and financial and training support to the RRBs. NABARD supervises and inspects the RRBs to see that they work as per mandated norms. The RBI, as a regulatory authority, provides guidelines to the RRBs from time to time. The State Government, besides contributing to the equity of RRBs, provides infrastructure support to them. Cooperative banks share the responsibility alongwith RRBs in providing rural credit. The Ministry of Finance oversees the functioning of the RRBs from a macro level. Despite having support, advice and supervision from as many as six agencies, the Committee are constrained to note that

RRBs have not been able to come up to the level of expectations as far as their operations and financial performance is concerned. As noted by the Committee elsewhere in the Report, sponsor banks have not been effectively monitoring the working of the RRBs. State Government nominees often do not attend Board meetings of the RRBs. Many State Governments have not paid their share of equity support to the RRBs. The Committee deprecate the lackadaisical approach of the sharesholders and regulatory agencies in discharging their responsibilities towards the RRBs.

3.38 The Committee note that the Chalapati Rao Committee has made certain recommendations for improving the regulatory and supervisory system of the RRBs. It has recommended that the regulatory framework for RRBs should be on the lines of those for commercial banks and RRBs should be subject to statutory norms of licensing. Supervisory aspect should be handled by a separate supervisory authority having adequate powers including powers for issuance of directions for compliance of provisions of RRBs, imposition of penalties for persistent defaults and omissions in compliance of observations in inspection reports and for non-

receipt of statutory returns. It has also suggested that there should be a clear-cut demarcation between supervision and regulation. The supervision by the sponsoring institution should be with ownership concern and in a nature of periodical scrutiny of the progress of RRBs sponsored by it. Another important recommendation made by Chalapati Rao Committee pertain to constituting of a self-supervisory system under an Audit Committee of the Board of RRB which should be empowered for taking decisions on various aspects of efficiency and self-supervisory mechanism. The need has also been felt for setting up an Audit Committee in the RRB with proper systems control, internal audit, internal inspection and concurrent audit. The Committee recommend that these proposals should be pursued to their logical conclusion by making necessary amendments in the RRB Act, if necessary, or through guidelines to be issued by the RBI for setting up a strict regulatory and supervisory system for RRBs. It should also be ensured that the institutions which are entrusted with these responsibilities discharge their roles effectively and do not become apathetic to the institution, which in the present

scenario is a major cause for the poor performance of the RRBs.

3.39 The Committee note that out of 196 RRBs figures regarding frauds/misappropriation of funds pertaining to only 22 RRBs are available with the Ministry of Finance. The Committee highly deprecate the lack of supervision and monitoring of RRBs by the sponsor banks, NABARD, RBI and Ministry of Finance on serious irregularities like frauds. It appears the RBI, NABARD and the sponsor banks seem content with issuing of circulars and conducting mandatory inspections without ensuring compliance of the guidelines issued by them and rectification of irregularities noticed during inspections. The Committee emphasise that regulatory and supervisory authorities above RRBs should ensure that their guidelines are scrupulously followed by RRBs and any non-adherence of the guidelines or irregularity noticed should warrant serious action against the delinquent officials.

3.40 From the information furnished to them, the Committee note that the staff members of RRBs were responsible for most of

fraud cases. The frauds are perpetrated on the banks by the employees either on their own or in collusion with outsiders. Even in the case of frauds committed by others, those could be possible due to the laxity in observance of laid down systems and procedures, which could also be attributed to failure on the part of staff of RRBs. It is also disquieting to note that instead of awarding suitable punishment or initiating criminal proceedings, the delinquent officials were either let off or only nominal punishments were awarded. It is only in a very few cases that officials were removed from service. Such lenient approach by the RRB management towards frauds committed by the employees only abet them to commit further irregularities. The Committee, therefore, make the following recommendations with a view to checking frauds

in RRBs:-

(i) As soon as a fraud or any irregularity comes to notice, the suspected official(s) should be rendered innocuous the same day.

(ii) Bank should move fast and get all the records under its control in order to minimise the chances of tampering with or destroying the records.

(iii) Delinquent officials found guilty should be awarded deterrent punishment including imprisonment.

(iv) A system of group accountability should be evolved i.e. both clerical and officer level employees connected with the area of fraud should be held responsible for irregularity/fraud and awarded suitable punishment.

(v) Disciplinary action should be taken invariably for any kind of laxity or negligence shown in the observance of laid down procedure.

(vi) Where CBI enquiry is warranted, banks should keep a copy of the records for simultaneous departmental enquiry.

(vii) In case of complicity or where proved negligence is involved, lenient view should not be taken by merely reducing/stopping of increment or allowing the delinquent official(s) to resign or to retire.

3.41 The Committee note that the performance of RRBs is reviewed by the Government of India through half yearly review meetings conducted by the Banking Division wherein all sponsor banks, RBI and NABARD participate. NABARD also reviews the performance of RRBs through its Regional Offices and the nominee Director on the Board. NABARD also conducts inspection of the RRBs once in two years. The sponsor banks which hold full responsibility in respect of operational and managerial matters of the RRBs, hold review meetings with the RRBs on a quarterly basis. They also conduct Management Audit of the RRBs. While NABARD and the sponsor banks are expected to ensure follow-up action in respect of major findings of their audit, the Committee during on the spot visit to various RRBs were constrained to note that there was no proper follow-up on the inspection reports by many RRBs. Many of the RRBs were flouting RBI guidelines with impunity and the sponsor banks and the NABARD were not initiating any corrective measures. The Committee desire that an inbuilt system of checks be evolved by the sponsor banks within a period of three months to ensure adherence of Government of India/RBI guidelines by the RRBs from the time of presentation of the Report and

regular follow-up on the observations made by supervisory authorities like NABARD. The Committee also recommend that NABARD should conduct inspection of RRBs once in a year instead of two years. As stated in Chalapati Rao Committee Report, the supervisory authority may develop a set of model internal audit and inspection guidelines through a consultative process. Based on this model, the RRBs should frame a manual of guidelines for the internal inspection of their branches that may encompass the contents, coverage, periodicity, reporting, compliance, follow up action in case of non-compliance, etc. These guidelines must cover all aspects of the functioning of the RRBs including inter alia the general audit, concurrent audit, revenue audit, management functions at the level of Head Office, Chairman and even the Board. The guidelines should provide for computer-based branch surveillance through processing of data periodically called from branches and this exercise and the regular inspection of branches should supplement each other. RBI may have a fresh look at the guidelines for conducting inspection more meaningfully by NABARD which may include financial inspection. A provision may also be made available as part of the regulations for internal and concurrent audit in the RRBs.

3.42 In terms of Section 17(1) of the RRB Act, 1976, the salary structure of RRB employees was determined by the Government having due regard to the salary structures of the employees of the State Governments in comparable positions. The Committee, however, note that the concept of low cost institution of RRBs is no longer valid as the pay structure of RRBs has been revised and brought on par with the commercial banks on the recommendation of National Industrial Tribunal which held that the employees of the RRBs are entitled for the pay-scales, allowances and other benefits on par with the employees of comparable level in corresponding post of respective sponsor banks. Subsequent wage revision in commercial banks in 1992 and 1997-98 was also granted to employees of RRBs. The Committee also note that as per Government's order the last two wage revisions as well as payment of arrears have been linked to the profitability of RRBs which has been challenged by RRB Association in the Supreme Court. Chalapati Rao Committee which inter alia examined the issue of remuneration of the staff of RRBs has also noted that payment of wages should be determined by the Board with prior approval of the sponsor bank with due regard to the standard norms of work performance, paying capacity of the institution and the bank's viability. The Committee desire that appropriate action may be taken on the matter in the light of Chalapati Rao Committee report and the outcome of Supreme Court verdict.

3.43 As per the provisions in the RRB Staff Service Regulations, staff members of RRBs are liable for transfer to any of the offices or branches of the RRBs. However, the existing Staff Service Regulations do not provide for transfer of employees from one RRB to another RRB. The area of operation of one RRB generally extends to 2 to 4 districts. The Committee note that employees of RRBs continue to work at the same place or in an adjoining district as the area of operation of RRBs is very small. It has been brought to the notice of the Committee that in some cases RRB employees have started parallel banking system from their houses during service which really speak on the dedication of the RRB staff to the institution they serve. The Committee are of

the view that with a view to curbing such practices as also to give exposure to the employees of RRBs by posting them in different places, there is an imperative need for periodical transfer of employees. The Committee note that Government had issued instructions on 15.6.1999 to fill up the vacancies caused due to promotion as well as natural wastage by redeployment of staff from one branch to another within the same RRB and from one RRB to another RRB where the sponsor bank is the same. However, guidelines have not been finalised so far to operationlise these instructions. The Committee desire that steps should be taken urgently to finalise the instructions and ensure their implementation.

3.44 RRB staff is trained through the training establishments of the sponsor banks and NABARD sponsored training establishments namely, Bankers Institute of Rural Development (BIRD) Lucknow and the Regional Training Colleges at Bolpur and Mangalore apart from RBI's College of Agriculture Banking at Pune. Various Committees which were set up to examine the working of RRBs had reiterated the need of imparting training to RRB staff.

The Committee recommend that all the sponsor banks should draw a perspective training plan for the RRB staff in such a way that all the employees of RRBs are covered within a specified time-frame.

New Delhi	**UMMAREDDY VENKATESWARLU,**
April 24, 2003	**Chairman,**
Vaisakha 4, 1925(S)	**Committee on Estimates.**

APPENDIX I

MINUTES OF SITTING OF THE ESTIMATES COMMITTEE
(2002-2003)

FOURTH SITTING

The Committee sat on Tuesday, the 6th August, 2002 from 1500 to 1755 hours.

PRESENT

Prof. Ummareddy Venkateswarlu-Chairman

Members

2. Shri S. Bangarappa
3. Shri Surendra Singh Barwala
4. Shri Subodh Mohite
5. Shri Shriprakash Jaiswal
6. Shri N.N.Krishnadas
7. Dr.C. Krishnan
8. Shri Manjay Lal
9. Prof. Rasa Singh Rawat
10. Shri G. Ganga Reddy
11. Shri Abdul Rashid Shaheen
12. Shri Rampal Singh
13. Shri Kodikunnil Suresh
14. Shri D.Venugopal

SECRETARIAT

1. .	Shri K.L. Narang	-	Director
2.	Shri Cyril John	-	Under Secretary
3.	Shri N.C. Gupta	-	Assistant Director

WITNESSES

MINISTRY OF FINANCE (DEPARTMENT OF ECONOMIC AFFAIRS –BANKING DIVISION).

1. Shri D.C. Gupta - Secretary(B&I)
2. Shri Ajit M. Sharan - Joint Secretary(B&I)
3. Shri Shekhar Agarwal - Joint Secretary(BO)

Reserve Bank of India

1. Shri Vepa Kamesam - Deputy Governor
2. Shri P.B. Mathur - Executive Director

National Bank for Agriculture and Rural Development

1. Shri Y.C. Nanda - Chairman
2. Shri M.V.S.C. Rao - Managing Director

2. At the outset Hon'ble Chairman gave brief description on the subject 'Regional Rural Banks'.

3. The Committee took oral evidence of the representatives of the Ministry of Finance (Department of Economic Affairs – Banking Division), Reserve Bank of India and National Bank for Agriculture and Rural Development on the subject `Regional Rural Banks'. The evidence was concluded.

4. A verbatim record of the proceedings was kept.

The Committee then adjourned.

APPENDIX II

MINUTES OF SITTING OF THE ESTIMATES COMMITTEE

(2002-2003)

THIRTEENTH SITTING

The Committee sat on Friday, the 21st March, 2003 from 1100 hours to 1300 hours.

PRESENT

Prof. Ummareddy Venkateswarlu - Chairman

MEMBERS

2. Shri Lal Muni Chaubey
3. Shri Dalit Ezhilmalai
4. Shri Shankar Prasad Jaiswal
5. Shri Shriprakash Jaiswal
6. Dr. C.Krishnan
7. Shri Samik Lahiri
8. Shri Sanat Kumar Mandal
9. Shri Manjay Lal
10. Shri Ram Nagina Mishra
11. Shri Shyam Bihari Mishra
12. Prof. Rasa Singh Rawat
13. Shri G. Ganga Reddy
14. Shri Dileep Sanghani
15. Shri Abdul Rasheed Shaheen
16. Shri Maheshwar Singh
17. Shri Lal Bihari Tiwari
18. Shri Shankersinh Vaghela

SECRETARIAT

1. Smt. P.K. Sandhu - Joint Secretary
2. Shri A.K. Singh - Director
3. Shri Cyril John - Under Secretary
4. Shri N.C. Gupta - Assistant Director

Contd.

2. The Committee considered the Draft Report on the Ministry of Finance and Company Affairs (Department of Economic Affairs - Banking Division) – 'Regional Rural Banks'. After the Draft Report was read out, Members made a number of suggestions regarding changes/additions to be made in it. It was decided that the suggestions made by Members might be incorporated in the Report and the revised Draft Report be considered for adoption in another sitting of the Committee to be fixed later.

<u>The Committee then adjourned.</u>

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APPENDIX - III

MINUTES OF SITTING OF THE ESTIMATES COMMITTEE (2002-2003)

SIXTEENTH SITTING

The Committee sat on Thursday, the 24th April, 2003 from 1500 to 1630 hours.

PRESENT

Prof. Ummareddy Venkateswarlu-Chairman

MEMBERS

2. Shri Dalit Ezhilmalai
3. Smt. Sheela Gautam
4. Shri P.R. Kyndiah
5. Shri Ram Nagina Mishra
6. Prof. Rasa Singh Rawat
7. Shri G. Ganga Reddy
8. Shri Abdul Rasheed Shaheen
9. Shri Maheshwar Singh
10. Shri Rampal Singh
11. Shri Lal Bihari Tiwari

SECRETARIAT

1.	Smt. P.K.Sandhu	-	Joint Secretary
2.	Shri A.K. Singh	-	Principal Chief Parliamentary Interpreter
3.	Shri Cyril John	-	Under Secretary
4.	Shri N.C. Gupta	-	Assistant Director

2. The Committee considered and adopted the following Draft Reports with/ without modifications as given in the Annexue:

(i) Draft Report on the Ministry of Finance and Company Affairs (Department of Economic Affairs – Banking Division) – 'Regional Rural Banks'.
(with minor modification as indicated in the Annexure)

(ii) X X X X X

3. The Committee authorized the Chairman to finalise the Reports in the light of the modifications and also to make verbal and other consequential changes, if any, arising out of factual verification by the Ministries and to present the same to the Lok Sabha.

The Committee then adjourned.

<u>**ANNEXURE**</u>

MODIFICATION MADE BY THE ESTIMATES COMMITTEE IN THE DRAFT REPORT ON THE MINISTRY OF FINANCE AND COMPANY AFFAIRS (DEPARTMENT OF ECONOMIC AFFAIRS - BANKING DIVISION) – 'REGIONAL RURAL BANKS'.

Para	Line	Modifications
2.35	Last	<u>Add</u> : Thus, the Committee desire that a two tier system of CD ratio should be allowed.