

## UNIT 9 – BANKING - Regional Rural Banks

**Regional Rural Banks (RRBs) were established in 1975** under the provisions of the Ordinance promulgated on the 26th September 1975 and followed by Regional Rural Banks Act, 1976 with a view to develop the rural economy and to create a supplementary channel to the 'Cooperative Credit Structure' with a view to enlarge institutional credit for the rural and agriculture sector.

The Government of India, the concerned State Government and the bank, which had sponsored the RRB contributed to the share capital of RRBs in the proportion of **50%, 15% and 35%, respectively**. The area of operation of the RRBs is limited to notified few districts in a State. The RRBs mobilise deposits primarily from rural/semi-urban areas and provide loans and advances mostly to small and marginal farmers, agricultural labourers, rural artisans and other segments of priority sector.



The RBI in 2001 constituted a Committee under the Chairmanship of **Dr V S Vyas on “Flow of Credit to Agriculture and Related Activities from the Banking System”** which examined relevance of RRBs in the rural credit system and the alternatives for making it viable. The consolidation process thus was initiated in the year 2005 as an off-shoot of Dr Vyas Committee Recommendations. First phase of amalgamation was initiated Sponsor Bank-wise within a State in 2005 and the second phase was across the Sponsor banks within a State in 2012. The process was initiated with a view to provide better customer service by having better infrastructure, computerization, experienced work force, common publicity and marketing efforts etc. The amalgamated RRBs also benefit from larger area of operation, enhanced credit exposure

limits for high value and diverse banking activities. As a result of amalgamation, number of the RRBs has been reduced from 196 to 64 as on 31 March 2013. The number of branches of RRBs increased to 17856 as on 31 March 2013 covering 635 districts throughout the country.

## Sources of Funds

The sources of funds of RRBs comprise of owned fund, deposits, borrowings from NABARD, Sponsor Banks and other sources including SIDBI and National Housing Bank.

## Owned Funds

The owned funds of RRBs comprising of share capital, share capital deposits received from the shareholders and the reserves stood at 19304 crore as on 31 March 2013 as against 16462 crore as on 31 March 2012; registering a growth of 17.26%. The increase in owned funds to the tune of 2842 crore was mainly on account of accretion to reserves by the profit making RRBs. The share capital and share capital deposits together amounted to 6174 crore of total owned fund while the balance amount of 13130 crore represented reserves.

## Recapitalisation of RRBs

(a) The Chakrabarty Committee reviewed the financial position of all RRBs in 2010 and recommended for recapitalisation of 40 out of 82 RRBs for strengthening their CRAR to the level of 9 per cent by 31 March 2012. According to the Committee, the remaining RRBs are in a position to achieve the desired level of CRAR on their own. Accepting the recommendations of the committee, the GOI along with other shareholders decided to recapitalise the RRBs by infusing funds to the extent of 2200 Crore. The shareholder wise proportion (GOI/Sponsor Banks/State Governments) is 50:35:15 respectively.

(b) As on 31 March 2013, an amount of 2015.86 crore has been released to 37 RRBs in 20 States. The released amount includes GoI's contribution of 1003.92 crore, State Govt's contribution of 303.59 crore

and Sponsor bank's contribution of 708.35 crore. The recapitalisation is complete in respect of 35 RRBs (5 in Odisha , 3 in MP, 2 in Uttarakhand, 2 in Jharkhand, 2 in Chhatisgarh, 2 in Bihar, 2 in Maharashtra, 3 in West Bengal, 5 in Rajasthan and one each in Assam, Arunachal Pradesh, Nagaland, Tripura, J&K, Karnataka, Tamil Nadu, Gujarat & UT of Puducherry). GoI share 7.99 cr. is pending in respect of Manipur Rural Bank. Mizoram State Government has partially released 0.50 crore in respect of Mizoram Rural Bank and 2.80 crore is pending. Two State Govts. viz. UP(2 RRBs), & J&K (1 RRB) have not released any amount in respect of 3 RRBs operating in their states. Out of 35 fully recapitalised RRBs, 3 RRBs viz. Central Madhya Pradesh GB, Manipur Rural Bank and Mizoram GB have not achieved CRAR of 9 per cent as on 31.3.2013.



## Deposits

Deposits of RRBs increased from 186336 crore to 211458 crore during the year registering growth rate of 13.48 %. There are Thirty three (33) RRBs having deposits of more than 3000 crore each.

## The Regional Rural Banks (Amendment) Bill, 2014

The Regional Rural Banks (Amendment) Bill, 2014 was introduced by the Minister of Finance, Mr. Arun Jaitley, in Lok Sabha on December 18, 2014. The Bill seeks to amend the **Regional Rural Banks Act, 1976**.

The Regional Rural Banks Act, 1976 mainly provides for the incorporation, regulation and winding up of Regional Rural Banks (RRBs).

**Sponsor banks:** The Act provides for RRBs to be sponsored by banks. These sponsor banks are required to (i) subscribe to the share capital of RRBs, (ii) train their personnel, and (iii) provide managerial and financial assistance for the first five years. The Bill removes the five year limit, thus allowing such assistance to continue beyond this duration.

**Authorised capital:** The Act provides for the authorised capital of each RRB to be Rs five crore. It does not permit the authorised capital to be reduced below Rs 25 lakh. The Bill seeks to raise the amount of authorised capital to Rs 2,000 crore and states that it cannot be reduced below Rs one crore.

**Issued capital:** The Act allows the central government to specify the capital issued by a RRB, between Rs 25 lakh and Rs one crore. The Bill requires that the capital issued should be at least Rs one crore.

**Shareholding:** The Act mandates that of the capital issued by a RRB, 50% shall be held by the central government, 15% by the concerned state government and 35% by the sponsor bank. The Bill allows RRBs to raise their capital from sources other than the central and state governments, and sponsor banks. In such a case, the combined shareholding of the central government and the sponsor bank cannot be less than 51%. Additionally, if the shareholding of the state government in the RRB is reduced below 15%, the central government would have to consult the concerned state government.

The Bill states that the central government may by notification raise or reduce the limit of shareholding of the central government, state government or the sponsor bank in the RRB. In doing so, the central government may consult the state government and the sponsor bank. The central government is required to consult the concerned state government when reducing the limit of shareholding of the state government in the RRB.

**Board of directors:** The Act specifies the composition of the Board of Directors of the RRB to include a Chairman and directors to be appointed through the central government, NABARD, sponsor bank, Reserve Bank of India, etc. The Bill states that any person who

is a director of an RRB is not eligible to be on the Board of Directors of another RRB.

The Bill also adds a provision for directors to be elected by shareholders based on the total amount of equity share capital issued to such shareholders. If the equity share capital issued to shareholders is 10% or less, one director shall be elected by such shareholders. Two directors shall be elected by shareholders where the equity share capital issued to them is from 10% to 25%. Three directors shall be elected in case of equity share capital issued being 25% or above. If required, the central government can also appoint an officer to the board of directors to ensure effective functioning of the RRB.

The Act specifies the term of office of a director (excluding the Chairman) to be not more than two years. The Bill raises this tenure to three years. The Bill also states that no director can hold office for a total period exceeding six years.



**Closure and balancing of books:** As per the Act, the books of a RRB should be closed and balanced as on December 31 every year. The Bill changes this date to March 31 to bring the Act in uniformity with the financial year.

At present there are 56 RRBs in India (There is no RRBs working in Goa and Sikkim)

Name of the RRBs Present Head Office State / UT

- 1. Allahabad UP Gramin Bank Banda, Uttar Pradesh**
- 2. Andhra Pradesh Grameena Vikas Bank Warangal, Telangana**
- 3. Andhra Pragathi Grameena Bank Kadapa, Andhra Pradesh**

4. Arunachal Pradesh Rural Bank Naharlagun (Papumpare), Arunachal Pradesh
5. Assam Gramin Vikash Bank Guwahati, Assam
6. Bangiya Gramin Vikash Bank Murshidabad, West Bengal
7. Baroda Gujarat Gramin Bank Bharuch, Gujarat
8. Baroda Rajasthan Kshetriya Gramin Bank Ajmer, Rajasthan
9. Baroda UP Gramin Bank Raibareilly, Uttar Pradesh
10. Bihar Gramin Bank Begusarai, Bihar
11. Central Madhya Pradesh Gramin Bank Chhindwara, Madhya Pradesh
12. Chaitanya Godavari Grameena Bank Guntur, Andhra Pradesh
13. Chhattisgarh Rajya Gramin Bank Raipur, Chhattisgarh
14. Dena Gujarat Gramin Bank Gandhinagar, Gujarat
15. Ellaquai Dehati Bank Srinagar, Jammu & Kashmir
16. Gramin Bank of Aryavart Lucknow, Uttar Pradesh
17. Himachal Pradesh Gramin Bank Mandi, Himachal Pradesh
18. J & K Grameen Bank Jammu, Jammu & Kashmir
19. Jharkhand Gramin Bank Ranchi, Jharkhand
20. Karnataka Vikas Grameen Bank Dharwad, Karnataka
21. KashiGomtiSamyut Gramin Bank Varanasi, Uttar Pradesh
22. Kaveri Grameena Bank Mysore, Karnataka
23. Kerala Gramin Bank Mallapuram, Kerala
24. Langpi Dehangi Rural Bank Diphu, Assam
25. Madhya Bihar Gramin Bank Patna, Bihar
26. Madhyanchal Gramin Bank Sagar, Madhya Pradesh
27. Maharashtra Gramin Bank Aurangabad, Maharashtra
28. Malwa Gramin Bank Sangrur, Punjab
29. Manipur Rural Bank Imphal, Manipur
30. Meghalaya Rural Bank Shillong, Meghalaya
31. Mizoram Rural Bank Aizawl, Mizoram
32. Nagaland Rural Bank Kohima, Nagaland
33. Narmada Jhabua Gramin Bank Indore, Madhya Pradesh
34. Odisha Gramya Bank Bhubaneshwar, Odisha
35. Pallavan Grama Bank Salem, Tamil Nadu
36. Pandyan Grama Bank Virudhunagar, Tamil Nadu
37. Paschim Banga Gramin Bank Howrah, West Bengal
38. Pragathi Krishna Gramin Bank Bellary, Karnataka
39. Prathama Bank Moradabad, Uttar Pradesh
40. Puduvai Bharthiar Grama Bank, Puducherry
41. Punjab Gramin Bank Kapurthala, Punjab
42. Purvanchal Bank Gorakhpur, Uttar Pradesh
43. Rajasthan Marudhara Gramin Bank Jodhpur, Rajasthan

44. Saptagiri Grameena Bank Chittor, Andhra Pradesh
45. Sarva Haryana Gramin Bank Rohtak, Haryana
46. Sarva UP Gramin Bank Meerut, Uttar Pradesh
47. Saurashtra Gramin Bank Rajkot, Gujarat
48. Sutlej Gramin Bank Bhatinda, Punjab
49. Telangana Grameena Bank Hyderabad, Telangana
50. Tripura Gramin Bank Agartala, Tripura
51. UtkalGrameen Bank Bolangir, Odisha
52. Uttarbanga Kshetriya Gramin Bank Coochbehar West Bengal
53. Uttar Bihar Gramin Bank Muzaffarpur Bihar,
54. Uttarakhand Gramin Bank Dehradun, Uttarakhand
55. Vananchal Gramin Bank Dumka, Jharkhand
56. Vidharbha Konkan Gramin Bank Nagpur, Maharashtra

