ANNEXURE 1.1

MAJOR RECOMMENDATIONS OF VARIOUS COMMITTEEs / WORKING GROUPs ON REGIONAL RURAL BANKs

The issues relating to the RRBs have been deliberated upon in the past by various Committees / Working Groups. The recommendations of some other Committees and Working Groups, though not focussed exclusively upon the RRBs, has a bearing on the functioning of these banks as well. Some of these recommendations are relevant in the present day context of the efforts towards the strengthening of RRBs, more particularly the terms of reference of the present Working Group. The Task Force may, therefore, examined such recommendations and considered it appropriate to take the same into account while developing perceptions about the future role of RRBs. These recommendations are summarized below :-

Working Group On Rural Banks (Narasimham Committee, 1975)

- Rural Bank are to be a scheduled commercial bank, to be promoted by GOI, State Government, a commercial bank that may hold equity in proportion of 50:15:25 and other institutions / individuals, might hold balance 10%. Later on, 15% equity may be open to cooperative banks / societies, other local institutions and individuals so as to foster the spirit of local participation. In exceptional cases, more than one bank may jointly share 25% equity holding. To encourage local participation, a minimum guaranteed dividend be paid to be 15% 'other' shareholders.
- Board of Directors to comprise of 09 Directors : 4 by GOI including the Chairman, 2 by sponsor bank, 1 by State Govt., and rest 2 by GOI from amongst remaining shareholders.
- Sponsor Bank to provide managerial, financial and training support to the rural bank.
- Chairman to be appointed by GOI in consultation with RBI and sponsor bank with due regard to his professional competence, background and experience.
- Emphasis on viability with recognition that in initial years the rural bank might suffer losses.
- Rural bank to examine the ways of restructuring and reorganizing the productive activities of small borrowers so as to bring them to the level of generating surpluses for the purpose of reinvestment.
- A certain degree of flexibility of operation may be permitted with exemption in existing banking laws and regulations.

Committee on Rural Banks (Dantwala Committee, 1978)

- The qualitative and quantitative dimensions of the credit gap are so large that neither the commercial banks nor cooperative would be able to fill them up. RRBs are needed to made good some of the inadequacies in the existing rural credit system and they should become an integral part of rural credit structure.
- Commercial banks functioning in the area of operation of RRBs should progressively entrust the credit business of their rural branches to RRBs keeping in view the capacity of RRBs to shoulder the added responsibility.
- Initially the area of operation of RRB to be in one district but a flexible appraoch to be adopted in determining the area of operation of RRB.
- 60% of loans and advances of RRBs to be earmarked for the benefit of small farmers, rural artisans and rural poor.
- Operational aspects of RRBs to be looked after by RBI instead of Central Govt. (NABARD was not in existence by that time)
- Share Capital may be contributed by RBI (25%), Sponsor Bank(40%), State Govt (25%) and local bodies (20%)

- Board to have district developmental officials, persons with local knowledge, bank officials so as to have a proper mix of technical, banking and local needs / aspirations.
- Chairman to be appointed by the Board of RRB with concurrence of RBI.
- RBI relaxations / concessions may be retained for first 05 years of its existence.
- A separate institution for training needs of RRBs may be set up by sponsor banks.

Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD, 1981)

- The balance of advantage lies in encouraging commercial banks to transfer the eligible business of their rural branches to RRBs wherever possible. RBI should facilitate such transfer as and when such proposals were made.
- The losses incurred by a RRB should be made good annually by the shareholders in the same proportion of their shareholdings.
- In areas where the terrain is difficult, the accessibility is limited, the area itself requires further monetisation and particularly all families belonging to weaker sections as in North Eastern Regional (NER), the approach to RRB may have to be different and it may be allowed to cover larger areas and also finance all the categories of borrowers for all purpose.
- The recommendations of the Dantwala Committee for transfer of entire control, regulation as well as the promotional and developmental responsibilities relating to RRBs from GOI to the RBI, was endorsed and recommended with the modificaton that NABARD would take the place of the RBI in the new step.

Working Group on Regional Rural Banks (Kelkar Committee, 1984)

- RRBs be allowed to provide credit to select institutions such as SC/ST corporations, local bodies, housing boards etc. besides the target group. Such loans should be given only to financially sound institutions and for productive purposes alone.
- Small and uneconomic RRBs to be merged in the interest of economic viability.
- Accumulated losses of RRBs to be shared by the shareholders in the form of grants to RRBs in proportion to their equity holding.
- For meeting their SLR requirements, RRBs should invest in Govt. securities with support from sponsor bank.

Agricultural Credit Review Committee (ACRC, 1989)

- The Committee took note of the serious organisational problems of RRBs on account of the continuous decline in profitability, poor recoveries and problems relating to management and staff.
- The Committee noted that major factor which contributed to the erosion of RRBs' margins and high operating costs involved in handling of small loans. They did not have any scope of cross subsidization in the absence of loans that could yield higher returns. Wilful defaults, misuse of loans, lack of follow-up, wrong identification of borrowers, extension of denami loans, staff agitations etc. also led to poor recoveries in RRBs, noted the Committee.
- The objective of serving the weaker sections effectively could be achieved only by self-sustaining credit institutions. RRBs' structurally are not the institutions thatr could fulfill this role. The Committee noted that the logical and rationale which justified the setting up of RRBs did no longer exist. The weaknesses of the RRBs are endemic to the system and non-viability is built into it.
- The Committee also explored the possibilities of improving enlargement of the share capital, provision of bad debt reserve, providing large access to more resilient customers

and even giving them a subsidiary status to the commercial banks. But on closer examination, these alternatives were found to be unsatisfactory as, in the opinion of the Committee, the RRBs did not solve the problems of effective service to the rural poor.

- The Committee thought it proper taht the only feasible alternative would be to merge the RRB-structure and the branches with the concerned sponsor banks by making necessary amendments to the existing laws.

Committee on Financial System (Narasimham Committee, 1991)

- The problem of the RRBs is one of improving their viability without scarificing the basic objective for which they were set up.
- To impart viability to the operations of RRBs, they should be permitted to engage in all type of banking business and should not be forced to restrict their operations to the target groups.
- To improve their viability further, a mechanism be worked out under which the RRBs should be able to place their surplus funds with NABARD or with a special agency that might be set up for the purpose which should pay interest on such balances by investing or deploying these funds to the best advantage on behalf of RRBs.
- The solution lies in evolving a rural banking structure which would combine effectively the advantage of the local character of the RRBs and the strength and the organizational and managerial skills of commercial banks. The need is to establish a viable banking structure which could effectively meet rural credit needs. The Committee recommended that each public sector bank should set up one or more rural banking subsidiaries to take upon its all rural branches. It was left on the RRBs and their sponsor banks as to whether the RRBs should retain their separate identity or they should be merged with such rural subsidiaries.

Committee on Restructuring of RRBs (Bhandari Committee, 1994)

- Apart from identifying 49 RRBs for comprehensive restructuring, the committee made wide ranging recommendations relating, *inter-alia,* to the appointment of Chairman / CEO, delineation of roles and responsibilities of supervising agencies of RRBs, staff matters, improving returns on SLR and non-SLR investments and improving funds management, augmentation of share capital, expansion of the scope of business avenues, deregulation of interest and rationalization of branch licensing policy.
- Special emphasis was laid on skills up-gradation of the staff of RRBs.
- Professionals and not the politicians be nominated on the Boards of RRBs.
- Greater devolution of decision making powers to the Boards of RRBs in the matters of business development and staff matters.

Working Group on Funds Management in RRBs (Misra Committee, 1995)

- A graduated investment by RRBs in Govt. securities.
- Introduction of special deposit scheme of 15 days' maturity period for SLR investments of RRBs with sponsor banks with interest rate on such deposits being pegged at 0.50% less than the coupon rate on dated GOI securities as on date of such investments.
- Widening the scope for non-SLR investments of RRBs.
- Strengthening the Operational set up for Investment Management in RRBs.
- Pooling of surplus funds of all RRBs for investment through an asset-management group and a national center for exchange of information that could be managed by NABARD.
- Introduction of Guarantee Bond System for management of cash till consideration of currency chests in RRBs.

- General exemption to RRBs from Income Tax on the income from investment of their rural deposits.

Committee on Revamping of RRBs (Basu Committee, 1996)

- Apart from identifying 68 RRBs for restructuring under Second Phase, Base Committee made certain recommendations on operational matters as well.
- Introduction of Prudential Norms for RRBs with suitable modifications.
- Subsidising RRBs to the extent of the cost of DICCGCI premium in respect of loans below Rs.25000/- or allowing RRBs to pass on this cost to the borrower.
- Introduction of a Floating Rate Mechanism linked to the coupon rates for improving yields on SLR investments of RRBs.
- Need to redefine the role of shareholders of RRBs more precisely.
- Broad-basing the selection of Chairman of RRBs.
- Some of the RRBs might not be able to respond positively to the 'Stand Alone' Approach or any other revamping strategy; liquidation of such RRBs might be the only solution.

Expert Group on RRBs (Thingalaya Committee, 1997)

- Categorization of RRBs as per their viability status and size to provide appropriate policy treatment to them.
- Very weak RRBs to be viewed separately and possibility of their liquidation be recognized. They might be merged with neighbouring RRBs.
- Special package for RRBs in North-Eastern Sector.
- RRBs to be permitted to open branches at centres having high business potential.
- Adequate autonomy to Board of Directors for decisions on all matters relting to business without having to refer to apex authorities.
- Delegation of authorities as per the size and viability status of RRBs.
- Strengthening of Internal Inspection System and set-up in RRBs and introduction of Vigilance Cells.
- Realistic RRB - specific staff review and recruitment policy.
- Role overlap between RBI, NABARD and Sponsor Banks to be avoided.

Committee on Banking Sector Reforms (Narasimham Committee, 1998)

- Banking system should be in a position to build a credit culture and discipline by equipping itself to identify the eligible clients, based on the prescribed norms, in the government sponsored schemes so that full responsibility for all aspects of credit decision remains with it. This would also help improve the client-bank relationship instead of the present system of virtually imposed clientele.
- RRBs should reach a minimum of 8% of capital to risk weighted assets over a period of 5 years. A review of a capital structure of the RRBs should be undertakn with a view to enlarging public subscriptions and the sponsor banks be given greater ownership and responsibility in the operation of RRBs.
- The supervisory functions over rural financial institutions have been entrusted to NABARD. While this arrangement may continue for the present, over the longer term the Committee suggested that all regulatory and supervisory functions over rural credit institutions should vest with the Board for Financial Regulation and Supervision.
- Banking policy should facilitate the evolution and growth of micro-credit institutions including LABs which focus on agriculture, tiny and small scale industries, including such specialist institutions as may be promoted by NGOs for meeting the banking needs of the poor.

- NABARD to prepare a checklist of various recommendations of the Committees set up in the past on RRBs that remain unimplemented and positive steps be taken to bring the RRBs on the right path of efficiency, solvency, productivity and profitability without undermining the ultimate objectives of rural development.
- RRBs must rationalize and amend their loan policies and procedures so as to function as a development banker for the rural poor.
- RRBs must work in close coordination with the cooperative banks and rural branches of commercial banks to fill the credit gap in rural areas without any clash of mutual interests.
- While discharging their functions as purveyors of rural credit and mobilisers of rural savings, RRBs should not ignore the importance of financial viability and operational efficiency. The productivity, profitability and solvency of the RRBs must be maintained and sustained to enable them to function as an effective and efficient institution of rural credit.

Committee on Manpower Norms in RRBs (Agrawal Committee, 2000)

- Norms for staffing in RRBs be pegged at 4.20 per unit (HO/ Area Office / Branch being treated as one unit each), with relaxation for RRBs in North-Eastern Region and hilly and desert areas. Additional manpower to be available only for RRBs with CD Ratio exceeding 60% and NPAs lower than the industry average by 5% points.
- Staffing set-up of head office of RRBs has been suggested in four categories separately for RRBs with branches upto 50, those upto 100 branches, those with upto 150 branches and those having more than 150 branches.
- Area Offices for every 25 branches with its location in the field.
- One scale up-gradation of the posts of Chairman, General Manager and Area Managers / Senior Managers.
- Manpower surplus / shortages to be managed by deputation of staff from surplus RRBs to deficit RRBs, by opening new branches / closure of unviable branches, computerization, outsourcing, redeployment of staff etc.
- RRB-staff with due experience to be considered for the post of General Manager.
- Abolition of clerical cadre over a period of time by converting the staff into multi-purpose workers.
- RRBs to achieve computerisation in Head Office,Area Office and at least 50% of its branches in 5 years period.

Expert Committee on Rural Credit (ECRC, 2001)

- To find out some other willing party (sponsor banks, RRB Employees themselves or some non-banking financial companies) to take over the share of defaulting State Governments (along-with the right of nomination to the Board) at a fair price determined independently by a professional.
- The GOI to review its system of nominating non-official directors and nominate non-official directors from a panel of professionals recommended by NABARD, sponsor bank or even the RRB itself.
- Sponsor banks to review their own systems of support and monitoring of RRBs' performance and ensure that necessary autonomy in innovation of credit products as also credit and other portfolio management ystems are ensured for RRBs.
- GOI to recognise RRBs which do not carry forward any accumulated losses as Local Area Banks (LABs), convert them into banking companies and incorporate them as such in the Companies Act. They need strong, regionally oriented management and larger capital flow. For this purpose, strategic local partners in the private sector may be needed. Employeed of concerned banks may also be conisdered as a strategic partner. Such banks may also be allowed to access capital markets for initial public offerings of their shares particularly to meet capital adequacy requirements.

- No new LABs other than those converted from RRBs or sponsored by non-government or voluntary agencies need be set up in the private sector in future. We have to recognise that RRBs are already LABs in the public sector.
- As far as possible, sponsor banks' nominees on RRB boards should be from their Zonal or Head Offices, a little away from the area of operation of the RRB and help correct perceptions of RRB personnel regarding pressure from local controlling offices of the sponsor banks for various purposes.
- Sponsor banks are often not prompt in handling references from RRBs. Some of these remain pending with bodies such as NABARD, RBI or GOI. Sponsor Banks should accord urgency to such references to help RRBs find early solutions to their problems.

Advisory Committee on Flow of Credit to Agriculture and Related Activities (Dr.Vyas Committee, 2004)

- Mandate of RRBs has to continue, even as they need to be restructured into viable financial institutions, simultaneously retaining their regional character and rural tours.
- All RRBs in the North Eastern States be merged into a Zonal bank on stand alone basis, the equity of which is to be provided by NABARD, SBI and UBI in the ratio of 26:37:37 through a holding company. They newly constituted bank will function independently with CEO and a BOD and will be delinked from the sponsor banks.
- A two-step amalgamation of RRBs for the rest of the country, under first step, all RRBs of a sponsor bank in a state would be amalgamated into a single unit. Sponsor bank and NABARD will contribute to the equity of the RRB through a holding company in the ratio of 26:74. Under 2nd phase, state level rural bank will be formed by amalgamating all RRBs (amalgamated and stand alone). Thus 20 state level rural bank will emerge after 2nd phase.
- The State / Zonal RRBs may be permitted to seek cheaper funds through issue of certificate of deposits.
- Income tax exemptions granted to RRBs be continued to be newly formed State / Zonal RRBs.
- RRBs Act, 1976 may be repeated and replaced by a new Act with suitable provisions for functional autonomy to the restructured RRBs and professionalized of management and Board of Director