

CHAPTER THREE

Regional Rural Banks - Genesis

Performance of Regional Rural Banks

Organisation and Management of Regional-
Rural Banks.

Malaprabha Grameena Bank

Organisation Structure of Malaprabha-
Grameena Bank

3.1 Regional Rural Banks : Genesis.

Regional Rural Banks (RRBs) came into existence because of the joint efforts of the central and state governments and the nationalised commercial banks, in response to the recommendation of the working group on rural banks headed by Narasihman which submitted its report on Thirtieth of July Nineteen hundred seventy five. "This new agency was created with the basic objective of filling the gaps in rural credit structure. They were set up specifically to meet the credit requirements of the weaker sections of the rural society whose problems came into sharp focus after the state governments enacted legislations in the mid-seventies for discharging the debts from non-institutional sources of marginal farmers and for scaling down the debts of small farmers in response to the guidelines of the Central Government under Twenty point economic programme."³⁶ Regional Rural Banks are set up in those rural areas where the availability of institutional credit is inadequate but the potentiality of agricultural development are substantial. Thus the main object of Regional Rural Banks is to provide credit to weaker sections, small and marginal farmers, landless labourers, artisans and small entrepreneurs. Initially five Regional Rural Banks were set up in 1975. The Sixth Five Year Plan envisaged the establishment of 170

36. D.J.Kanvinde, Regional Rural Banks, RBI monthly review, November, 87, p. 540.

Regional Rural Banks covering 276 districts by the end of 1985."³⁷ As against this 193 Regional Rural Banks had been established by the end of June 1986 covering 341 districts of the country with 12,606 branches. As at the end of December 1985 the deposits of 188 Regional Rural Banks were rupees 1286/- crores.

Each Regional Rural Banks is sponsored by a nationalised banks which is called as the sponsor bank. In addition to providing services of its officers and experts to the sponsored Regional Rural Banks the sponsoring bank also helps it in the recruitment of the personnel. Some sponsor banks have set up separate training arrangement for the Regional Rural Banks staff. The Regional Rural Banks were initially set up with an authorised capital of rupees one crore divided into one lakh shares of rupees one hundred each. The issued capital was rupees twenty five lakhs of which fifty percent was subscribed by the Central Government, fifteen percent by the concerned State Government and thirty five percent by the sponsor bank. The statutory requirements for cash reserves and liquid assets have been kept low for the Regional Rural Banks as in the case of co-operatives. They are allowed refinance facilities by the Reserve Bank of India (Now by the National Banks for Agricultural and Rural Development-NABARD) at a concessional rate of three percent below the bank rate.

37. Mishra and Puri, Indian Economy, Himalaya Publishing House, 1987 edn., p. 546.

3.2 Performance of Regional Rural Banks

The preamble of the Regional Rural Banks Act, 1976 reads as follows: "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 labour, village artisans and small entrepreneurs and matters connected therewith and incidental thereto."³⁸ It means that profit is not the main objective of the Gramina Banks. But profit is essential for the survival of the organisation. Regional Rural Banks branches are generally modest in terms of cost, size and decor. Average staff cost per branch is rupees 45,000/- in 1984 as stated in Kelkar Committee report. This is less than (Nearly half) the cost of operation of many commercial bank branches situated at comparable centres in the neighbourhood. Regional Rural Banks have shown very good progress. At the end of December 1986, Regional Rural Banks constituted 40.2 percent of all commercial banks in rural centres with population of less than 10,000."³⁹ In terms of branch expansion the Regional Rural Banks have shown a growth rate of 26.3 percent and 42.5 percent per annum between June 1981 and June 1985 respectively.

38. Ibid., p. 542.

39. Ibid., p. 543.

The growth rate of public sector banks during the same period was four percent and 6.2 percent respectively. The Regional Rural Banks have covered 92 of the 115 districts (i.e., 90 percent) with sizeable tribal concentration in the country. At the end of June 1985 the total deposits of the Regional Rural Banks was rupees 1,286/- crores with 148.4 lakh deposit accounts, thereby showing average deposit of rupees 712/- per account. Advances amounted to rupees 1,188/- crores spread over sixty three lakh accounts at the end of June 1985. The low average advance per account at rupees 1,887/- is indicative of small man orientation of the Regional Rural Banks.

"The aim of the financial institutions in India today is increasing the social welfare rather than earning profits, banking of the classes now has been transformed into banking of the masses. Population served per bank has gone down from 65,000 in June 1969 to 17,500 in June 1982. There is a shift in the emphasis from security oriented to 'production oriented' loan."⁴⁰ But without earning a reasonable margin of profit the survival of the organisation becomes very difficult. Even a service institution should and must earn a reasonable margin of profit that is essential to continue its working. Profit is necessary for the institution to

40. A.B.Kalkundrikar's Ph.D thesis, Role of Regional Rural Banks in Economic Development-A Case Study of Grameena Banks in Karnataka, (unpublished) Karnatak University, 1984, p. 6.

keep it going. Profit can be compared to the blood in the body. Even public utilities run by the Government have changed their well established 'no profit, no loss' policy and have started aiming at a 'reasonable margin of profit'. The public enterprises, if they fail to earn a reasonable margin of profit, they will be forced to depend upon the public exchequer for their day to day working and they will be in a bad position as they will not be in a position to get sufficient funds for the basic activities like renovation, replacement, expansion etc. Ultimately the burden will have to be shifted to the public at large in the form of increased taxes, which is not a good phenomenon. Because of the above reasons the public institutions and the service institutions have changed their attitudes and have started aiming at earning reasonable margin of profit.

A large number of Regional Rural Banks and most of their branches are incurring losses year after year. Ordinarily Regional Rural Banks with five years standing are expected to cross the initial gestation period by developing their business and people."⁴¹ However of the 60 Regional Rural Banks above the age of five years in December 1984 as many as 39 continued to show losses inspite of concessions and facilities and subsidies allowed to them. NABARD is

41. Mishra and Puri, n. 37, p. 547.

providing refinance facility to Regional Rural Banks at Concessional rate of three percent below bank rate.

"Many of the Regional Rural Banks are unable to comply with the statutory requirements in respect of liquidity and cash reserve eventhough it is less than the statutory liquidity ratio and the cash reserve ratio fixed for commercial banks. They are allowed to pay interest on deposits at onehalf percent more than the rate usually allowed by other commercial banks. Also ninety percent of the Regional Rural Banks branches were in unbanked areas in 1984."⁴² A serious problem which has grown with time is one of growing overdues and increasing default in Regional Rural Banks by their beneficieries. By December 1984 more than rupees 240/- crores advances had become overdue forming almost fifty percent of their aggregate demand of about rupees 485/- crores. Recovery rate in Regional Rural Banks have unfortunately not shown any improvement over the years."⁴³ It has been deteriorating despite continuous efforts. Mounting overdues seriously limit the ability of Regional Rural Banks to grant further loans and calls for immidiate remedial action. The phenonenon of mounting overdues both in respect of agricultural and industrial advances continue to persist. While on the one hand both

42. SBI monthly review, November 1987.

43. Mishra and Puri, n. 37, p. 547.

the volume and the share of direct agricultural lending by banks have been steadily growing there has been no perceptible improvement in recovery. This is all the more alarming in case of Regional Rural Banks."⁴⁴

An agenda item of state level coordination and review committee meeting of NABARD on February 9, 1986 at Patna reads as follows:

"The recovery position in all the Regional Rural Banks excepting Mithila and Mungihad declined considerably and there had been steady increase in overdues. Regional Rural Banks like Singbhum, Champaran, Vaishali and Madhubani have recovered to the extent of twentyfive percent, thirty three percent and thirty two percent of the total demand respectively. No Regional Rural Banks under review attained the level of recovery of sixty five percent for being eligible for unrestricted refinance from NABARD."⁴⁵

At the end of 1984 of 173 Regional Rural Banks in operation 130 showed losses. Accumulated losses of 49 Regional Rural Banks had eaten up their share capital. A number of Regional Rural Banks are unable to comply with the statutory requirement in respect of liquidity and cash reserve, had created doubt about long term viability."⁴⁶

44. Ibid.

45. S.K.Singh, Banking in India and its emerging challenges, Southern Economist, June 15, 1988. p. 24.

46. SBI montns Review, Nov. 1987.

The progress of the working of the Regional Rural Banks were studied by different committees at different times. Dantwala committee was set up under the chairmanship of Prof. M.L.Dantwala in 1977 to

- a) evaluate the performance of Regional Rural Banks in the light of the objectives for which they were set up.
- b) to indicate their precise role in the rural credit structure and
- c) to make recommendations with regard to the scope, methods and procedure of their functioning and other matters germane to the enquiry.

The committee gave useful recommendations for improving the working of the Regional Rural Banks. Most important suggestion of the committee was that further expansion of Regional Rural Banks should be restricted selectively only to such areas where both the co-operative and commercial credit structure are weak or inadequate. The working group on rural banks too had taken the same view i.e., the Regional Rural Banks would supplement and supplant the other credit institutions in the field. The committee felt that the Regional Rural Banks should extend their credit facilities not only to small and weaker sections but to others too. If this is not done, the committee felt, the deposits will be adversely affected. The committee expressed the view that the Regional Rural Banks should be permitted

to do other banking business just like other commercial banks and the Regional Rural Banks should their own chairman, i.e., as the chairman deputed by the sponser bank is a person whose experience is not in consonance with the concept of Regional Rural Banks. If the first chairman is a person deputed by the sponsor bank the second and the successive chairman should be done by the board of directors of the concerned Regional Rural Banks in concurrence with the Reserve Bank of India."⁴⁷

Different steering committees were set up for studying the progress of the Regional Rural Banks in India and their progress is also watched by NABARD. The steering committee reconstituted by NABARD in 1982 expressed the view that Regional Rural Banks should continue to assist small and marginal farmers and should remain to be small man's banks. Agricultural Finance Corporation (AFC) was entrusted with the study of the working of the Regional Rural Banks by the NABARD. It was observed by the AFC that the main difficulty in opening new branches was the lack of infrastructural facilities such as all weather roads, post office, suitable premises for location of branches, inadequacy of trained staff etc."⁴⁸

47. Report on trend and progress of banking in India, 1983-84
Supplement to RBI Bulletin September, 1984.

48. Ibid.,

The study group under the chairmanship of S.M.Kelkar popularly know as kelkar committee, submitted its report in June 1986. The committee has made important suggestions for improving the working of the Regional Rural Banks important of which are :

- a) Increasing the authorised capital of the Regional Rural Banks from one crore rupees to five crore rupees and the paid up capital from twenty five lakh rupees to one crore rupees.
- b) Merger of small and uneconomical Regional Rural Banks and establishment of new Regional Rural Banks on the basis of genuine need of the neglected areas and tribal population.
- c) The Regional Rural Banks should be made to serve only two districts for better supervision and control over the working branches.
- d) Sponsor banks should invest in Government securities the deposits kept by the Regional Rural Banks. Also the sponsor banks should reduce the rate of interest on refinance from 8.5 percent to 7 percent."⁴⁹

49. Report on Trend and Progress of Banking in India, 1986-87, Supplement to RBI Bulletin, September 1987, p. 73-77.

3.3 Organisation and Management of RRBs

"The management of each of the Regional Rural Banks was to be through a nine member Board of Directors (Which could be raised to fifteen with the approval of the Government of India) headed by a Chairman. The Chairman was to be appointed by the Government of India. The Central Government nominates three directors (in addition to the Chairman) : the State Government nominates two directors, while the sponsor bank nominates the remaining three directors. The remuneration of the staff directly recruited by the Regional Rural Banks is prescribed by the Government which lays down that the structure of remuneration payable to staff of the Regional Rural Banks should be on par with the salary structure of the employees of the State Government and local authorities of comparable level and status in the area of the Regional Rural Banks. The structures of remuneration is generally lower than that applicable to the staff of the sponsor bank."⁵⁰

In order to help the Regional Rural Banks to engage trained staff as early as possible the Reserve Bank of India has arranged to provide training to the chairman and the branch managers in the Reserve Bank of India's College of Agricultural Banking, Pune. It has also been decided that

50. Dantwala Committee Report, 1978, p. 607.

while the training programme for the chairman and the branch managers of the Regional Rural Banks would be conducted at the College of Agricultural Banking, Pune, that of the accountants, field officers and clerks will be conducted at the training centres of the respective sponsor banks under the overall supervision of the College of Agricultural Banking, Pune."⁵¹

"Today the Regional Rural Banks in the country employ about forty thousand staff. Of this about 55 to 60 percent are officers serving as rural bankers through a network of about twelve thousand branches. These are trained and qualified people who are in constant search for better career opportunities. Since the Regional Rural Banks fail to provide sufficient promotional avenues these people tend to shift to commercial banks. To stop this process of desertion of the Regional Rural Banks, it is necessary to consider seriously the creation of new positions like area managers, regional managers etc., and also provide better promotional avenues to junior staff."⁵²

3.4 Malaprabha Grameena Bank

Malaprabha Grameena Bank (MGB) was established in the year 1976 (August 31). The bank was sponsored by the

51. Dantwala Committee Report, 1978, p. 609.

52. Mishra and Puri, n. 38, p. 548.

Syndicate bank. The bank which was started with only two branches in Haliyal and Dhundshi villages of Dharwad district, today covers 1540 villages in the two districts of Dharwad and Belgaum and is working with 200 branches. Belgaum is the fifth largest district in Karnataka. It lies on Pune Bangalore high-way. It is surrounded by Goa and Maharashtra in the West, Dharwad and North Kanara districts in the south, Bijapur district on the east and parts of Kholapur district in the North. Average rainfall of the district is 785 mm. It is connected with Bombay and Bangalore by air and has a military base. Nine rivers flow through the district viz., Malaprabha, Ghataprabha, Krishana, Panchaganga, Doodhganga, Vedganga, Hiranyakeshi, Tambrparni and Markandeya. There are ten talukas viz., Athani Bailhongal, Belgaum, Chikodi, Gokak, Hukkeri, Khanapur, Raibag, Ramdurg and Saundatti. The area of the district is 13,415 square kilometres and has 1158 inhabited villages and 19 townships. Limestone, Bauxite, Chinaclay, felspar and quartz are mined in various parts of the district. The major crops of the district are groundnut, bajra, jowar, cotton, tobacco, sugercane, maize, paddy and pulses. Fifteen percent of the area sown is irrigated. Sixty seven percent of the area is sown in the district. Dharwad is the fourth largest district in Karnataka. It is bounded by Bellary and Raichur on the east, Belgaum and Uttara Kannada districts on the west.

Bijapur on the North and Shimoga on the south. Two major rivers viz., Tungabhadra and Malaprabha flow in the district. Average rainfall of the district is 691 mm. There are 1337 inhabited villages and eighteen townships 620 panchayats. The area of the district is 13,738 square kilometres and the population of the district according to 1981 census is 29.39 lakhs. There are seventeen talukas in the district, viz., Byadgi, Dharwad, Gadag, Hangal, Haveri, Hirekerur, Hubli, Kalghatgi, Mundargi, Nargund, Navalgund, Ranebennur, Ron, Shirahatti Shiggaon and Savanur. Major area of cultivation depends upon rainfall and the major crops of the district are Jowar, Wheat, groundnut, paddy and other field crops. Sixty eight percent of the land is held by small and marginal farmers. Eighty percent of the area is sown in Dharwad district. Thus the total command area of Malaprabha Grameena Bank is 27,153 square kilometres."⁵³

The Malaprabha Grameena Bank has several firsts to its credit. It occupies first place in all the

key areas at the state level and first place at national level in terms of total business of rupees 122.21 crores and in terms of outstanding advances of rupees 77.61 crores. It occupied second place in terms of number of deposit accounts; fifth place under loans issued to government sponsored schemes; seventh place in deposit amounts as at the end of June 1987 at the national level as claimed by

53. Shrinivas Vadavi, n.7.

the bank itself in its handbook. The bank incurred losses continuously upto 1980 since its inception, but today it is one of the very few profit earning Regional Rural Banks in the country. The profit earned and the loss incurred by the bank since its inception is given in Table 3.1

The reserve position of the bank has more than doubled during the four year period from 1984 to 1987 as given in Table 3.2. During the same period the deposit per employee (staff has also shown an upward trend as shown in Table 3.3. The productivity of the bank in recent years has improved as claimed by the bank and published in its hand book in the year 1988. The productivity of the bank is given in Table 3.4 for a period of four years starting from 1984. to 1987.

The bank is working in consonance with the main objectives for which the Regional Rural Banks were brought into existence. i.e., "developing rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs and for the matters connected therewith and incidental thereto".⁵⁴

The split up of the total assistance given by the bank

54. Dantwala Committee Report, 1978.

Table 3.1

Table showing profit/loss of MGB for the period of 1976=87

Year	Profit (Loss) (Rs. in lakhs)		Year	Profit (Loss) (Rs. in lakhs)
1976	(0.05) Loss		1982	18.44 Profit
1977	(2.37) Loss		1983	21.93 Profit
1978	(6.79) Loss		1984	15.22 Profit
1979	(5.84) Loss		1985	19.54 Profit
1980	(2.17) Loss		1986	18.99 Profit
1981	8.08 Profit		1987	5.57 Profit

Source : Various bank reports.

Table 3.2

Table showing the Reserve Position of MGB for the period
of 1984 - 87

Year	Reserves (Rs. in lakhs)
1984	43.19
1985	62.73
1986	90.71
1987	96.29

Source : Bank reports

Table 3.3

Table showing the Deposit per staff for the period of 1984-87

Year	Deposit per staff (Rs.in lakhs)
1984	2.71
1985	3.29
1986	3.27
1987	3.30

Source : Bank reports

Table 3.4

Table showing the Productivity of MGB staff for the period
of 1984-87

Year	Productivity (Per employee business in lakhs)
1984	6.96
1985	8.14
1986	8.72
1987	9.03

Source : Bank reports.

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upto the end of 1986, reflects the fact that the bank has been working for the purpose for which the Regional Rural Banks are brought in to existence. The split up of the assistance up to 1986 is given in the Table 3.5. We find that, the working of the bank is in consonance with the basic objectives of the Regional Rural Bank in the country. The bank has given philip to agricultural and indstrial activities in the villages coming under its command area. It has worked well to solve the rural problems like the unemployment and underemployment, fuel problem, rural transportation etc., The bank has supported the handicrafts and the cottage industries by advancing money to such industries. The MGB has advanced money for the purchase of bullock carts, and other small transport vehicles. The sprinkler irrigation scheme started by the bank has helped to irrigate 3,500 acres of land and 1,295 families were benefitted by this scheme upto the end of 1986. The lift irrigation scheme started by the bank has irrigated 15,000 acres of land. About 2,300 wells and tubewells put in the two districts by the bank has helped to irrigate 16,000 acres of land. Gobar gas plants have come to the help of the rural people and because of this they were in a position to overcome the acute fuel problem. Under the IRDP the bank stood first in the implementation of the scheme in Belgaum district and got the gold medal for the same. Under this scheme the bank has advanced an amount

Table 3.5

Table showing the performance of MGB in implementation of Government in sponsored schemes for the period 1976-87

(Rupees in lakhs)

Name of the scheme	Dharwad	Belgaum	Total
I. I.R.D.P.	1195.83	349.32	1545.15
II. Antyodaya.	30.29	37.70	67.99
III. Gobar gas plants.	46.82	38.15	84.97
IV. Special unit plan.	57.46	26.25	83.71
V. Animal husbandry.	68.91	32.23	101.14
VI. One hundred wells.	123.04	96.60	213.64
VII. Negilu Bhagya.	11.23	19.74	30.97
Total Rs.	1533.58	593.99	2127.57

Source : Bank pamphlet.

of rupees 15.45 crores to 45,000 people.

3.5 Organisation Structure of MGB

There are seven layers in the organisation structure of the Malaprabha Gramina Bank. The Bank is under the overall control and supervision of the chairman who is assisted by the General Manager and the Functional Managers. There are nine separate departments headed by the experts in the functions of the concerned departments. Personnel and Secretarial Department is headed by the Personnel Manager and takes care of the personnel functions like recruitment, selection etc. The public relations and Development Department takes care of the relation of the bank with the outsiders. Other departments working in the bank in their respective areas of specialisation are Accounts Department, Advances Department (Dharwad District), Advances Department (Belgaum District), Advances (Residuary), Lead Bank (Belgaum District), Lead Bank (Dharwad District). Below these, we have officers and field supervisors who in turn are assisted by Senior and Junior Assistants.

The Branches are working under the control of the Manager, who is assisted by the field supervisors and the Junior assistants. Chart 3.1 shows the organisation structure of the Bank.

The Government roster system is strictly followed in the recruitment of the staff. One of the important corporate

Chart No. 3.1

Organisation Structure of Malaprabha Gramena Bank



Head Office:

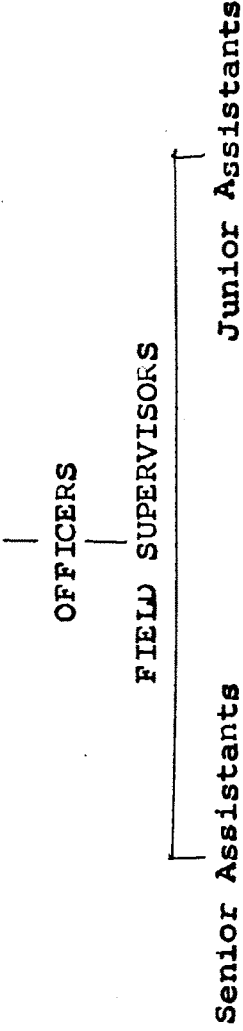
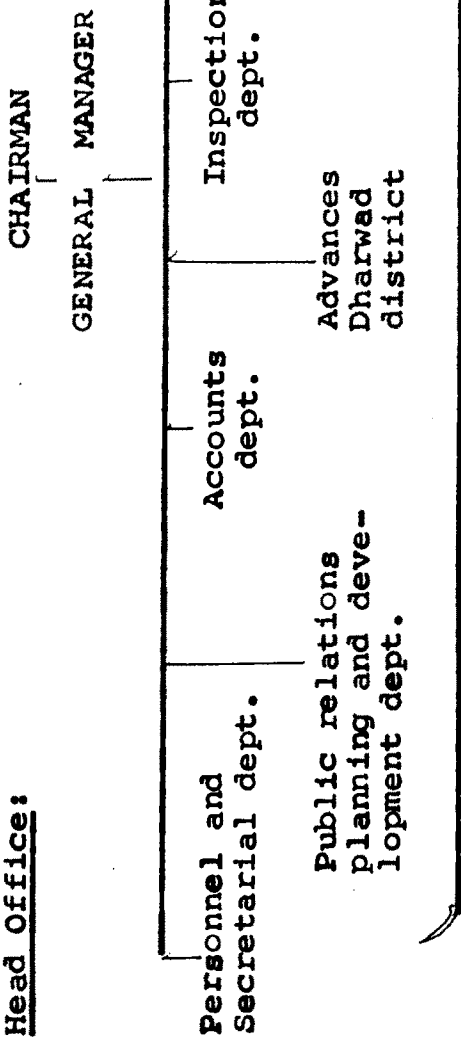
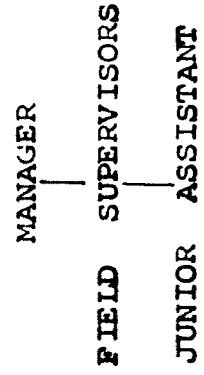


Chart No. 3.2

Branches :



objectives of the bank is to "build up the human resources for increasing the productivity and train them to meet the growing challenges". The staff is usually trained in the staff training centres set up for the purpose. They are also sent on deputation to institutions like the College of Agricultural Banking, Pune, set up by the Reserve Bank of India. Usually the training for the chairman and the branch managers are provided at the College of Agricultural Banking, Pune; that of accountants, field supervisors and clerks is conducted at the training centres set up by the sponsor banks for the purpose, which work under the overall supervision of the College of Agricultural Banking, Pune and the Regional Training centres established by NABARD. The total manpower of Malaprabha Grameena Bank as at the end of 1987 was 1203 and with this the bank stands first in terms of manpower also i.e., the bank has the largest size of the staff when compared to other Regional Rural Banks in the country.