

16.15 hrs.

MR. CHAIRMAN : The House shall now take up Item No.32.

SHRI BASU DEB ACHARIA (BANKURA): Sir, I beg to move:

"That the Bill further to amend the Regional Rural Banks Act, 1976, be taken into consideration."

Sir, three decades have passed since five RRBs were set up on 2nd October 1975. These five RRBs were set up by an ordinance promulgated by the President of India. Why? The Government of India, at that point of time, thought that in order to provide credit to the agriculture sector, to provide credit to the rural artisans, to the marginal farmers, there should be a separate bank, a rural bank. The main object of setting up of rural banks in 1975 was to help the rural people and the farmers.

Seventy per cent of the people are living in rural areas and majority of this population is depending on agriculture. We have the rural industries and traditional industries. We have lakhs and lakhs of rural artisans and weavers. The Government of India felt that there should be some institutional mechanism to help the people, particularly, who are in the agricultural sector and who are in the rural industrial sector.

Sir, a working group was constituted prior to promulgation of ordinance, prior to setting up of regional rural banks and that working group submitted its report on 31st July 1975. That working group recommended for setting up of State sponsored region based rural oriented commercial banks, which would lend the rural touch, local feeling and familiarity with the rural problems and low cost profile with the professional discipline, ability to mobilise deposits and access to Central money markets and the modernised outlook of commercial banks. In a sense, it was an experiment to hybridise commercial banking culture with a rural ethos. This is the backbone or this was the main object for which these rural banks were set up in 1975, that is, commercial banking culture with rural ethos.

The role, as perceived, for this new institution was to supplement and not to supplant the existing financial institutions in the rural sector. It was envisaged that this institution would help reducing regional imbalances by mobilising and simultaneously deploying resources in the same region.

It was ascertained that these banks would cover primarily the small and marginal farmers, landless labourers, rural artisans, small traders and other weaker sections of the rural society for their productive credit needs and, to a limited extent, their consumption credit needs. This was the main object behind setting up of or creating a new institution with a rural orientation but with a commercial mentality.

Our banking sector was in the private sector prior to 1969. In 1969, 14 banks were nationalised. After 1969, after nationalisation of commercial banks, what we have seen is the increase in the number of branches in the rural areas. From 1969 to 1975, there has been substantial increase in the number of branches not only in the urban areas but also in the rural areas. Prior to 1969 it was class bank. So, class bank was converted to mass bank. Bank should reach the people, not people will come to the bank. What was our experience during these years – from 1969 to 1975? Although the priority sector was identified, although the object at that time was that 40 per cent of the lending should be in the priority sector, yet in spite of these objects, even after nationalisation, the people residing in the rural areas were not properly looked into. As a result of this, the Government of India felt that in order to take care of the needs of the rural people, the small and marginal farmers, the agricultural labours, and lakhs and lakhs of the rural artisans, there should be a separate lending institution whose main object would be to cater to the needs of these sections of the people.

Sir, we have traversed a long way. Thirty years is not a small period. Three decades have passed. We have gathered experience. From 5 RRBs, today we have 196 RRBs. Today, we have more than 14,000 rural branches of RRBs. The total deposit in RRBs is more than Rs. 62,000 crore and their total lending or total credit today stands at Rs. 32,000 crore. In RRBs, the NPA is 12.5 per cent. Indeed, there are a number of RRBs which are incurring losses.

But a large number of RRBs, which used to incur losses, today are earning profit. But profit was not the sole motive for setting up of a separate rural credit institution.

After the enactment of the Act, within a decade, a Committee was appointed under the chairmanship of Mr. Kelkar. That Committee made certain recommendations. On the basis of those recommendations, the RRB Act was amended. But what we have seen is, although there have been two or three amendments to the RRB Act, the main problem of the RRBs has not been addressed so far during the last 30 years of their existence.

Today what are the constraints which the RRBs are facing? They suffer from many in-built constraints, namely (a) they have a limited area of operation and spatial coverage to achieve the economies of scale; (b) the autonomy of the RRBs has been twisted or weakened under the overbearing attitude of sponsor banks and the officials deputed by them; (c) there is lack of space for achieving benefits of cross-subsidisation; and (d) there is absence of level playing fields of RRBs and uneven competition with sponsor banks who are their masters, formulating policies and business products of sponsor banks.

Autonomy is only in paper. It is fully controlled by the sponsor banks, rather sponsor banks are exploiting the RRBs. Due to the unfriendly and costly credit products of RRBs as designed by the deputed officers who are from the sponsor banks, off take of credit is very low; and sometimes it is negative and thus leading to a rapid migration of RRB funds to urban areas through the sponsor banks. Mobilisation is from the rural areas but the fund is being utilised in the urban areas. It may be noted that out of Rs.62,000 crore of RRB deposits, around Rs.37,000 crore has been taken away from the villages in the form of investment in bonds, securities and term deposit accounts of sponsor banks. This is the main problem. The RRBs have received only around Rs.500 crore from the sponsor banks. Rs.37,000 crore has been taken away from the RRBs and only Rs.500 crore from the sponsor bank has been given, and Rs.4,200 crore from the NABARD for their lending activities has also been given so far. This is the unhealthy situation which should be stopped.

A number of committees were set up. One Committee was set up in the year 2001 under the chairmanship of Mr. M.A.S. Chalapathi Rao. He was the Chairman of a Committee to recommend or suggest amendments to the Regional Rural Banks Act of 1976.

That Committee observed in para 2.7.1 :

"The 196 RRBs covered nearly 500 districts in the country as on 31st March, 2001 spread over 23 States. However, rural areas of the States of Delhi, Goa, Sikkim and the Union Territories of Andaman & Nicobar, Chandigarh, Dadra & Nagar Haveli, Daman & Diu, Lakshadweep and Pondicherry are not served by RRBs.

RRBs were initially set up with one or two districts notified as their area of operation. In subsequent phases, RRBs with regional considerations extended over larger areas were also established. RRBs in the North Eastern States were opened with one RRB in each State except Assam where 5 RRBs are in existence. However, a large part of Tamil Nadu and Maharashtra are without any RRB, and certain districts in various other States are also kept out of the services of RRBs as initially the districts having favourable ratio of per branch population served by bank branches, were not considered for opening of RRBs. Taking into consideration these issues as also the changing environment of banking in rural areas, the working group recommends that irrespective of banking network, all the districts of the country may be covered under the area of operation of RRBs."

That means continuance; not only continuance but also extension of area of operation for RRB has been recommended by a Committee appointed by the Government of India. Not only the extension of area - areas which have not been covered by RRBs - should be covered by RRBs but also there should be structural changes.

Sir, there were number of suggestions in this House also in the past. We raised and discussed this issue in regard to structural changes of RRBs. One suggestion was to have one single RRB, National Rural Bank of India. There are suggestions for de-linking of RRB from the sponsor bank. Our experience is that the sponsored bank is not playing its role rather the sponsored banks are exploiting RRBs. I have already stated that Rs.37,000 crore were taken away from the rural area to the urban area, and the areas of operation of RRB are also encroached upon by the sponsored bank or the commercial bank. That is why, there is a need for change in the structure. There is a need to strengthen RRBs concept whether district-wise or two or three districts-wise which was evolved at the initial stage. We have gathered experience during its 30 years of existence in our country. I want to know whether there is a need for a change in the structure or not, that is a question.

Sir, why are we asking for a National Rural Bank - not like NABARD? Our suggestion is this.

This would be an umbrella organisation and we could have State-level RRBs, like one in Orissa, one in West Bengal and so on. So, we could have 22-23 RRBs. These RRBs would have autonomy and the sponsor bank should be delinked from the RRBs. The concept of National Rural Bank is like that of the Steel Authority of India's organisation. Under the Steel Authority of India, there are a number of steel plants. The Coal India Limited has a number of subsidiaries. So, under one organisation, there could be a number of subsidiaries or a number of banks. If there is any objection for creating a separate or new organisation, the NABARD could take up the responsibility of playing that role. Then, there would be an end for the sponsor bank supervising or monitoring the Regional Rural Banks.

In the Common Minimum Programme, it has been stated that rural credit would be doubled. The hon. Minister of Finance, in his Budget Speech, has stated that a substantial increase has been made in regard to rural credit and within February, 2005, 85 per cent of the target has been achieved in providing rural credit to farmers and rural artisans. The rural people need help and assistance. What we have seen during the last decade - I say, 'a decade' - there has been a decline in institutional credit in the rural areas. There has not been growth in the agricultural sector which employs the largest number of people. Today, in our country, about 70 per cent people depend on agriculture but why are our farmers committing suicide?

Today, farmers are committing suicide. We have not seen five years ago instances of 10,000, 12,000, or 13,000 farmers committing suicide. The farmers of Andhra Pradesh, Maharashtra, Karnataka, and even in some districts of Kerala have committed suicide. Even in Punjab, farmers have committed suicide. This is because there has been deceleration in the activities and in the role which these institutions should have played. If we go through the figures of rural credit, we could see how gradually it has reduced. As a result of this, the farmers had fallen into debt trap. As the farmers were not getting remunerative prices or even fair prices, they were not in a position to repay the loans which they had taken from the moneylenders.

They were forced to commit suicides. We will have to realise this situation. There is a change in the Government that means the change in the policy also. So, these institutions have to be strengthened. 'Strengthened' means the objects for which these institutions were set up in 1975. If the commercial banks were capable to provide assistance to the people living in the rural areas, then there was no need for having a separate bank for these people. That need was felt at that time, some 30 years back. Today, we will have to discuss and we will have to see whether we have been able to achieve those objects or not or we will have to traverse faster to achieve those targets.

Today, a large number of people are engaged in the rural industry, our traditional industry, in the weaving sector and in the textile sector. Lakhs and lakhs of people are employed in the handicraft industry. This sector is also facing crisis. We have seen the crisis in the weaving sector. We have seen that weavers were burning their looms in Andhra Pradesh. Then, how can we save these people? We have about 22 crore agricultural labourers. The main problem in our country is that land reforms have not been implemented so far. The industrialisation can take place rapidly only if land reforms are implemented properly and if the purchasing power of the people living in the rural areas can be increased. The gap between the rich and the poor has increased during the last decade. We have a situation in our country where people have amassed wealth whereas we have people in our country -- the official figure is 26 per cent people till today, about 27 crore people -- who are still living below the poverty line.

Our main object should be to raise the people above the poverty line. In that respect, the Regional Rural Banks can play a vital role. So, with restructuring its organisation, the experience that we have gathered during the last 30 years of its existence was that from five RRBs it has grown up to 196 RRBs. So, we have to see how the economic condition of those people can be better off who are living below the poverty line. That should be the main object when restructure or reorganisation or strengthening of RRBs will be taken into consideration.

Sir, the problem that we are today facing with the existing structure of the RRBs is absence of the unity of command and unity of approach which is expected of the proposed State-level banks under independent, apex bodies. What I am suggesting is an independent apex body like NRBI. These 28 sponsors will go into 28 different directions. That will be the problem with the existing sponsor Banks.

The hon. Minister of Finance, in his Budget speech also, stated that he is not thinking to delink the sponsored bank. The autonomy about which I stated initially, was enshrined in the objects when the Bill was moved for consideration. Shri Pranab Mukherjee was the Minister of Finance at that time. While moving the RRB Bill for consideration he said :

"The sponsor banks are entrusted with the duty of aiding and assisting the RRBs not only by subscribing to the share capital of the bank but in the recruitment and training of the personnel during the first years of the functioning of the RRB. The sponsor bank will also provide managerial and financial assistance to the RRB."

What financial assistance that the sponsor bank have provided? It is only Rs. 500 crore. I do not know what is the managerial assistance that is being provided. That was the object of providing a sponsor bank for each RRB. But that object was not fulfilled.

The NABARD also plays a role. I now come to the NABARD Act. In Section 26 it says :

"The national bank may contribute to the capital or purchase and sale of share or invest in the sureties of any institution concerned with agriculture and rural development which the Central Government may notify in consultation with the Reserve Bank of India."

This has been provided in the NABARD Act. My amendment is substitution of the following for sub-section 2 :

"Of the capital issued by the Regional Rural Bank under sub-section (1), fifty per cent shall be subscribed by the Central Government, fifteen per cent by the concerned State Government or the group of State Governments in such proportion as may be prescribed by the Central Government, and the remaining thirty five per cent shall be subscribed by the National Bank or any other nationalised Bank that may be notified by the Central Government under clause (g) of section 2."

For section 3 my suggestion is :

"The Central Government may, if considered necessary and expedient in the interest of the people of a particular area or State or Union Territory or a group of States, by notification in the Official Gazette, establish in the concerned area or State or Union Territory or a group of States one Regional Rural Bank with such a name as may be specified in the notification, or may by the said or any subsequent notification, specify the limits within which the Regional Rural Bank shall operate."

So, there should be one regional bank for each State. For the North-Eastern States, my recommendation is that there may be one regional bank for six, seven or eight States in the North-Eastern region.

Another committee was constituted by the Reserve Bank of India under the Chairmanship of Shri B.S. Vyas. He also recommended for restructuring of RRBs. He has also recommended continuation of RRBs and also retaining their regional character and rural focus. He has said that the mandate has to continue. What was the mandate? Even as they need to be restructured into viable financial institutions, simultaneously, their regional character and rural focus should be retained. The Tenth Plan target of four per cent growth in agriculture leads to a projected credit demand of Rs. 7 lakh crore. Even if their share in it is eight per cent to nine per cent, RRBs would have to deal with Rs. 66,000 crore or more during the Tenth Five Year Plan. Their role would be important because of their strong rural branch infrastructure of more than 14,000 branches and rural orientation of their staff. While moving the Bill, the then Finance Minister had stated that the staff also would be from the rural areas, having rural orientation.

Initially, there were different pay-scales for the employees of commercial banks and RRBs. There was one pay-scale for the employees of commercial banks and another pay-scale for the employees of RRBs. The staff of RRBs used to get the pay-scale of the concerned State Government. For example, the staff of RRBs of Orissa used to get the pay-scale at par with the employees of the State Government of Orissa. I think, in 1990, after National Industrial Tribunal's award, the pay parity was given. Now, today the pay-scale of staff of RRBs is at par with that of commercial banks though initially they were quite different and lower as if these banks were set up with some different objects. Why were two separate pay-scales there? The staff of both the RRBs and the commercial banks do the same work, same job. Why should there be discrimination of two separate pay-scales.

I have also suggested here in this Bill to insert a new Section 24B(1) after Section 24A of the principal Act. It reads :

"The Central Government in consultation with the Reserve Bank and the National Bank may by a notification in the Official Gazette or by a separate Act of the Parliament constitute a National Rural Bank of India or by such other name as specified in the notification or Act, with a Chairman and such other number of members, as it may specify in the said notification or in the specified Act, drawn from banks, financial institutions, academicians and experts in rural development and rural banking."

That is my suggestion.

Sir, the issue of participation by the workers was also raised by me when the RRB Act was first amended in the 1980s. The first amendment was brought before the House at that time, and I raised this issue at that time also. Why the representatives of the employees should not be included in the Board of Management? I was assured that it would be considered in the future, but it was not considered. Therefore, I have suggested in this Bill also that there should be one representative in the Board itself.

"The apex authority so constituted shall recommend to the Central Government about the policy guidelines to be followed by Regional Rural Bank and Sponsor Banks and in particular help the Central Government in matters of selection of Chairman of Regional Rural banks and act as the negotiating forum for settlement of demands and disputes with trade unions of officers and employees of Regional Rural Banks."

There should be one representative in the Board from among the workers, and I have made this suggestion in this Bill also. I have stated in 7 (1) (f) that :

"one director to be nominated by the largest association of officers of the Regional Rural Bank concerned from amongst their members who are working in the bank." and in 7 (1) (G) – I have suggested inclusion of one Director from the largest association of employees also.

This is my suggestion with regard to this issue. Why is the issue of restructuring the rural banks being raised again and again? A number of committees were appointed, and recommendations made by them since 1985. A large number of working groups were also appointed to go into this issue. The Reserve Bank of India (RBI) has also made recommendations on this issue, but the Government has not taken any positive decision with regard to the reorganisation and strengthening of the Regional Rural Banks (RRB). Now, there is a need to do it, as it is overdue. A delay of 30 years is not a small period. We have gathered enough experience in this area, and with this experience, today, the rural banks are playing a very vital role with regard to providing lending support to the rural areas. The economic condition of 70 per cent of the people to be raised.

We know the condition of most of the co-operative banks. Last month I went to Nashik, a district in Maharashtra and saw four co-operative banks being closed for the last one year. I saw thousands of depositors not being able to get their deposits, and crying for the same. So, we know the condition of the co-operative banks. A Committee was appointed to go into this issue, and that Committee recommended for certain structural changes in the co-operative banks also. It is learnt that nearly 40 per cent of the mandated lending activity is being done by these RRBs. These RRBs have organised over 5 lakh Self Help Groups (SHG) in different States. These banks, as a group, have so far negotiated over 5 crore borrowal amounts among the rural masses. It is not an insignificant amount.

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RRBs have implemented about 40 per cent of the total Government-sponsored poverty alleviation schemes. RRBs alone have organised 45 per cent of the total 12 lakh self-help groups in our country. RRBs issued over 40 lakh Kisan Credit Cards to the farmers; organised over 5,000 out of 11,000 Farmers' Clubs under NABARD Scheme. The Government of India advised RRBs to increase their agricultural credit by 40 per cent. During 2004-05, RRBs exceeded the target by September, 2004. Their recovery position at around 74 per cent is satisfactory and far better than that of the cooperative banks. The percentage of NPAs is around 12.6. Even after discharging tremendous social responsibilities in rural areas, RRBs, as a system, have become a profitable proposition. They have posted average net profit of Rs. 500 crore consecutively for the last five years. Above all, the staff of these banks, mostly sons of the soil, has developed a close rapport and affinity with the rural masses, which are most suited for rural credit and rural planning.

There is a need for a change in the outlook of the Government. My impression is, there is a stereotype outlook of the Government. There should be some changes in their attitude. यदि गरीबों की सहायता करनी है, जिनमें खासकर गांव के लोग हैं और उनकी संख्या बहुत ज्यादा है, then we have to help the rural artisans by giving financial assistance for upgrading their technology, for modernisation of their technology. It has to be done because the largest number of people are employed in our rural and traditional industries. That can only be possible if RRBs and cooperative banks are strengthened. The commercial banks have some different outlook. Now, Sir, we are opening the doors, and FDI is being allowed in the commercial banking sector -- from 49 per cent, it was raised to 51 per cent and then to 100 per cent. If this is allowed, I do not know whether this 40 per cent priority sector lending will be there. Who will take care of these rural masses? Only RRBs and cooperative banks take care of them. Unless these RRBs are strengthened and restructured, the problems of the rural masses, particularly the small and marginal farmers, and rural artisans, cannot be addressed. That can only be done if they are restructured, and State-level RRBs are formed with an umbrella organisation, maybe, known as 'National Rural Bank of India, or NABARD can be entrusted with that work. Only then, the needs of the rural masses can be taken care of.

I am raising this question only with a view to draw the attention of the Government to the plight of the people living below the poverty line in the rural areas. For them there is a need for reorientation, restructuring and strengthening of RRBs. I would request that if this Bill is not accepted by the Government, the Government bring a legislation to amend the Regional Rural Banks Act to strengthen and restructure them on the above lines.

SHRI SANDEEP DIKSHIT (EAST DELHI): Mr. Chairman, Sir, after this very eloquent speech of my learned colleague - there is much that he has mentioned in his Private Members' Bill that I support – I have to offer my own set of recommendation too.

The Regional Rural Banks, to a very large extent, have been a kind of lifeline of credit to the rural people. The experience of the cooperative banks has not been very good. The cooperative banks have been plagued by their own problems and mismanagement - problems of political interference, problems of practices that are not very ethical or very good for banks. On the other hand, the scheduled commercial banks have been found wanting as far

as understanding of local realities is concerned, as far as developing tools that will actually work for rural livelihoods and the kind of nature and character that banks in rural areas should have. In both these cases they have been far below what the RRBs have actually been able to give to this country.

Another very important thing about the RRBs has been that they have the local staff. They now have almost 15 to 20 years, and in some cases 30 years, of experience of working in the rural economy and the institutional memory with regard to the livelihoods of that area, the kind of needs that the rural people have in that area is very strong. The linkages of rural people to Regional Rural Banks is strong. Therefore, a kind of cultural coordination and strength is also there in local RRBs.

RRBs have also been suffering because of large scales of mismanagement, and sort of non-prudent banking policies and practices that they followed for a few years. However, the last decade had seen a considerable turn around in RRBs. While RRBs may be known to be loss making enterprises, as my learned colleague has rightly said, they are now actually profit-making. Only about 50 out of 196 are actually making losses. That too, if we see, is concentrated in the Central, Eastern and the North-Eastern parts of India. These are regions which also are some of the

most backward and the poorest regions of our country. They are also areas where concentration of business potential is not there so much as in other areas. The RRBs' health and strength has also reflected the rural reality of these States and these regions.

The local rooting of the Regional Rural Banks makes them the most-effective banks for, what the NCMP also calls its major focus, *Aam Aadmi*. The *Aam Aadmi* can go and approach the Regional Rural Banks. Almost all Members who must have worked with the RRBs must have seen that the kind of knowledge, the kind of cooperation that they give to the rural people is far more effective in RRBs than in any other form of banking that we have seen. The problem that RRBs have faced, as my learned colleague earlier on said, largely belongs to the way sponsored banks have actually tackled the RRBs.

In many senses, it has been, what we call, absentee landlordism. They have often given Chairmen and Chairpersons to these banks. But they hardly ever come to their bank meetings. In many cases, General Managers also come from sponsored banks. They do not want to come to RRBs. In fact, within banking, it is known as punishment posting. Whenever you are given RRB postings, those people who do not get good branch postings or who want to be punished are often sent to RRBs.

These people stay there for just about a year or two and after that they go. So, the kind of vision and the kind of long-term strategic thinking that any good locally rooted bank requires is often missing from the RRBs. In spite of this, most of the RRBs have done reasonably well, and 140 out of 196 RRBs are actually profit-making. The gross NPAs are actually reducing. The borrowings are actually increasing. It is a sign of the general strength of the RRBs. In that sense, the Bill to strengthen the RRBs to grant them greater autonomy in their functioning is a very welcome step. In some sense, I would offer some of my suggestions - in some senses different from what my learned friend has earlier said and in some senses in consonance with what he has said.

The RRBs problem comes from the mismanagement. Mismanagement has come from the sponsored banks. In the meeting of six CMDs with the Finance Minister, the one previous to Shri Chidambaram, there was a suggestion to amalgamate most of the RRBs into seven or eight or nine large level banks. This, I personally feel, is a bit of a dangerous move. I would personally oppose it here. The RRBs are strong because of the local character. They reflect local realities and that character tends to get weakened if we amalgamate them into these six or seven large trans-national banks. There is no problem of large overarching, supervisory institution that can look after RRBs and move them from the situation they are in now into more profitable, better managed and more efficient banks. There is a move to see that all the RRBs get transferred into nine or ten large regional banks or large rural banks. If we do this, I think, the strength that RRBs have today, will get destroyed. There is very little reason to believe that the kind of problem that Scheduled Commercial Banks have today in servicing rural areas would not reach the RRBs that we already have.

The move and the recommendations of the Chalapati Committee Report was that there should be 57 or 60 RRBs - I am not sure of the number - instead of 196 RRBs that are there today. It would be a far better and far more thought out recommendation. It takes RRBs in socio-culturally and socio-economically contiguous zones. It also takes into consideration the fact that some of the loss-making banks can be amalgamated into more profit-making RRBs so that their balance sheets also start looking better. Let us start looking at the regional strengths of various RRBs in the kind of the economic situation they operate in, and in that sense if we pool the strengths of many of these RRBs, it will be a far more effective medium than the current suggestion of having nine or ten large banks. The suggestion of my learned colleague earlier was that of having 22 or 23 State level apex institutions. I think, it is also nearer to the Chalapati Committee Report of 1957. I think, the larger in this case would certainly be better.

In this, I would also point out the phenomena that while in international practices, especially when we look at the United States, we often try to follow the banking practices that the United States follows. I think, one of the strengths of the United States banking infrastructure is the tremendous regionality and local focus of most of their banks. They bring that flavour to banking institution. Of course, they have very highly and well regulated atmosphere in the sense that banks by and large conform to prudent practices and remain legal and above board. Some of that, we must also copy to the RRBs and try to get them as local as possible.

In terms of the problems of RRBs, there are host of suggestions that we can put forth. Some of them need management changes and some of them need changes in their regulatory framework, for which suggestions are already there to amend the Act.

I would like to just place a few of these in front of you. Right now, some of the principles that I would follow for the proposed amendment would be that the RRB system would probably be the most effective system to cater to the financial needs of rural India as it is growing. The financial needs of rural India are today diversifying. There is a much more diversified economy today in rural India where agriculture is no longer the main stay and non-farm activities or non-agriculture activities are becoming equally crucial if not more crucial than agriculture. Today, the types of financial services those rural areas require are going beyond mere credit and saving. Insurance, for example, is an extremely critical need of rural entrepreneurs, rural farmers, rural artisans and that is again something that almost no financial insurance institution in India is actually able to provide. Nobody, in fact, has the spread, the local spread that RRBs today have.

In the coming century, there is also much greater rural-urban linkages that are coming up. As we see, unlike the generally proposed and accepted policies that Government of India used to follow, of pushing all kinds of programmes across India, there is tremendous rural strength in the kind of economic opportunities that are opening up. Sericulture is succeeding and succeeding only in areas which have the factor condition for sericulture to continue. The entire programme of the National Sericulture Board actually failed when we tried to push sericulture in areas where sericulture could not succeed. Similar is the case with powerloom, similar is the case with tiles and similar is the case with host of other activities that are emerging in rural areas. Therefore, the more localised, the more local friendly the bank is, the more important it is and the greater it will be able to contribute to the economy in rural areas. Therefore, whatever changes in the Act we propose, we must see to it that it does not impose a uniformity on all RRBs. There can be some uniformity in terms of bringing some of these RRBs together. There can be uniformity in the kind of management practices that could be followed in the kind of direction that RRBs could be given in trying to be more poor friendly, but to bring greater uniformity, I think, would destroy the strength and the character of the RRBs and that needs to be singled out and strengthened further.

There could also be an attempt to consolidate something amongst RRBs. In fact, why should there not be consolidation between RRBs and rural branches of commercial banks? Commercial banks are not at all happy with some of their rural branches. Some kind of consolidation can even happen at that level. We have already seen some of these cases where commercial banks have actually consolidated their branches. Why can it not be with RRBs?

In terms of the management structure, I think, the RRBs are already gradually moving towards becoming sustainable financial institutions. But, there is very little role that each stakeholder is actually playing in the running of the RRBs. I have already mentioned that sponsored banks are hardly interested in what happens to RRBs except for the fact that they have used them to squeeze rural areas to get credit deposit which they have used for their own purposes. The State Governments do not seem to play much of a role. The Government of India sometimes sleeps when anything really happens to RRBs, and occasionally wakes up when the conditions of RRBs went particularly down, especially in 1997 when they did the re-capitalization of RRBs. There is a gradual move somewhere. For example, NABARD has been trying to help RRBs improving their management practices with more prudent norms in banking. But apart from that, the three key stakeholders have actually left the RRBs to be the way they are. The State Governments have now awakened themselves when they want RRBs to move in for these schemes or the IRDP type programmes where RRBs play a significant role. Their interest in RRBs ends there.

There is also a case of chronic loss making RRBs in the less developed States. Can we compare and can we give the same solution to improve the conditions of RRBs in our high growth zones, high agriculture zones or areas where they are doing better, for example, in Southern India or Western India with those of what is happening in Eastern or Central India? It is, perhaps, not. Perhaps the amount of monetization of rural economy, the amounts of surplus that are available in these different areas of our economy are substantially different.

Therefore, the kind of approaches, the kind of business practices that the RRBs would require in different areas, would differ. One of the examples that we could actually see, is that more narrow banking and micro credit mandate could actually be given to RRBs unlike the kind of rural banking credit that some of the others would get. Surplus

funds in this case could even be passed with RIDF, and these RIDF funds could actually be mandated to be spent in and only in these areas from where this money actually comes from.

Some of this would need regulatory changes and some of this would need change of thinking on the part of the Government of India.

Sir, in terms of the legal status, I think, it is very important that the RRBs become banking companies and come under the Banking Regulations Act. That is the area of benefit which they have not got till now.

The new RRBs could actually be licensed by the RBI. The system of local area bank, which in many parts of India has found tremendous success today, could actually be taken on and similar identities could actually be given to the Regional Rural Banks. The role of the Government of India and the State Governments in management of the RRBs could be minimised. The RBI is to play its regulatory role; and the local people, the local community could actually bring in this. I must share one thing with you that the RRB is the only institution we have, which you can actually link with a community bank where we really do not have any other community bank in India.

In that sense, some of the suggestions that I am giving are actually based on this. The authority of the Board as well as the accountability of the Board with these banks also need to go up. Right now, we have boards in the RRBs, which are completely disinterested, except for the occasional regulatory mechanisms that they need to have. In terms of the key changes that could be brought in the mission of RRBs, the RRBs should now finance the entire range of the rural economy and not just agriculture. To ensure credit flow to their areas, I think, 60 per cent of the deposits of banks could be forcibly lent back in their own areas. It is not an issue that the demand is not there. Some repeated studies have shown that the RRBs cater to roughly six to seven per cent of the formal rural credit. The formal rural credit is just about 30 per cent of the total number of loans that are taken, and about 60 per cent is the quantum of rural loan taken. So, the field open for the formal banking is extremely wide.

As Shri Basu Deb Acharia mentioned, our bankers are not really the bankers. They never go to the real people who need credit. They actually wait for the people to come to them. Therefore, the RRBs are the actual institutions in the current context, which can actually start becoming effective local community focussed and culturally tuned banks.

Sir, the loss-making banks, as I had mentioned earlier, could for some time be restricted to narrow banking to take on credit, and probably merged into the micro credit either through Self-Help Groups that I have already mentioned with their surplus funds going in SLR, or in RIDF.

The RRBs also could take on other financial services. But the role that they can play, can be critical on life and non-life, as the agents of the insurance companies, and even in the market based mutual fund units. This is something that has been tried in certain parts of India and it has been found fairly effective. Some of the local area banks that are routed in rural areas have shown remarkable work in micro credit and micro finance. They have made it possible.

In terms of ownership, we need to bring in certain recognition. I think, some of this need to be in terms of the Government of India lessening its control. So, they may bring in sponsoring banks to take up more. This is the kind of suggestion that Shri Basu Deb Acharia-ji has also made. So, these are some of the issues that the Government can look at.

But the important thing is that the management structure and the management system of the bank need to be run by the Boards or the ownership authorities that are completely answerable to these areas, which the RRBs service. My fear is that if you have the apex level banks, the policy-making efforts of all the RRBs will become so far away, and it will become so remote that they will become the instruments that are more tuned to push in the fiscal and the credit policies of the Government of India, rather than the fiscal and credit requirements of the local areas, specially our villages.

That is something that most of the apex-level institutions have shown. They have shown that their distance from the customers is not just geographical but, at times, even philosophical.

In terms of the ownership, open ownership is also something that is possible. It would enable any entity, including current banks, to start owning and even sponsor institutions. About sixty-five per cent of the ownership is actually possible today. That is something that Government may consider. The sponsoring banks interested in retaining the ownership may even enhance the stake in RRBs to sixty-five per cent. The Canara Bank has shown it. Whenever the Canara Bank has sponsored the institutions, the role it has played in the RRBs is far more effective than other banks. I can give you the example of the Central Bank of India. The Central Bank of India has been far much wanting. The role of the Canara Bank has been very very effective. It is a model, which the Government of India may probably study more deeply. Some of its references are already in the Report of the Chalapati Committee.

In terms of proposed changes in the governance, I am for the RRBs to become board-managed institutions. Key stakeholders – including depositors and employees – must be given a role in the management of these RRBs. I think that it is extremely critical. The Chairman or the Chairperson of the Board must be separated from the executive authority and to become Board-appointed. Therefore, they would become accountable.

The powers and the duties of the Boards have to be delineated in a far greater detail than the amorphous status, which is now continuing. The sense of responsibility fixing because of the sponsoring institutions is today very very limited in most of the RRBs.

I come to the change in the supervision. As Basudebbhai has already mentioned, NABARD may play a role of an apex-level institution. I think that it is an excellent suggestion. Already, in the current context, NABARD seems to be losing much of the role that it was playing earlier on. Its refinanced money is not acceptable by banks because banks can take money from the markets, which are cheaper. Even in priority-sector lending, the money of the NABARD is no longer as critical and as necessary as it was earlier. As far as rural credit is concerned, NABARD also needs to redefine its role and re-look itself in the coming years. Maybe, NABARD can take a pro-active role in this. They already have presence in almost 500 or 600 districts of this country. They have officers far rooted in the local reality and probably can play a very effective role of supervisory authority.

In terms of restructuring the RRBs, they could even be enabled to merge with each other as per the merger procedure under the Companies Act. But, here, I would recommend that we take out the need and necessity of the Government of India approval. When it comes to RR banks and their modification, let the RBI, which has shown itself to be a fairly effective institution, to become the authority and start giving most of the approvals. RRBs could be allowed to take over the business of rural and semi-rural branches of commercial banks. They may be allowed to be liquidated and wound up under the Companies. In this case, again, as said earlier, it should be the RBI approval and not of the Government of India's. Then we really start looking at them as banking and financial institutions and not as last-mile connection. Debt-recovery mechanism is an area where RRBs have already been saying that they require Debt Recovery Tribunals – that are already in existence – needs to be strengthened. Recovery rate of RRBs, which was about 45 per cent to 50 per cent in 1997, has gone up to 74 per cent in 2003-04. Their recovery is already increasing. I think that with some more effort, it may go up to 80 per cent to 85 per cent. That itself is a remarkable achievement of the RRBs.

In terms of dispute-resolution mechanism, we can...*(Interruptions)*

THE MINISTER OF RURAL DEVELOPMENT (DR. RAGHUVANSH PRASAD SINGH): You continue with it.

SHRI SANDEEP DIKSHIT : Even the RRBs Restructuring Tribunal could be thought of. It is because of many of such suggestions are going to be made or are being made by the Government of India. There will be issues that the restructuring tribunal would need to look at. Thinking of such things in the very beginning would make a tremendous difference and this could be given judicial powers comparable to the High Courts. There is nothing that can prevent this.

'Restructuring Tribunals' could be the final authority for all disputes whether it is among employees, depositors, creditors, borrowers, investors or any other party that would get affected by these changes, which means changes like amalgamation, which means changes of character of RRBs or changes in any other form that we may talk about.

Moving towards prudential norms that RRBs would require, there has already been a prudential system of NPAs that the RRBs have effected. That has already led to pretty good practice over the last 5-10 years. All norms, as per the Banking Regulation Act, the RBI rules therein, including capital adequacy, income recognition, risk concentration, etc., should also be taken up by the RRBs. In addition, to prevent RRBs with high NPAs from continuing to take deposits and put depositors' money at risk, there is a provision for limiting the amount of deposit that RRBs can make as multiple of its net-owned funds, and this limit becomes less and less. There can also be systems of half-yearly audit and declaration of results which are to be mandated.

These are some suggestions that I have given. I would assume that some of these would require regulatory changes and some of them would require some kind of a commitment from the Government of India. I am sure that RRBs have strengths; they have the local realities; the strength of the staff is that they seem to know their areas extremely well. If some of those suggestions get implemented, I am sure that with the general goodwill that people have, the RRBs would go a long way in making our RRBs some of our most effective rural banking institutions.

With this I sit down; I support large parts of what Shri Basu Deb Acharia has said. I presume that implementing the suggestions that I made would probably take the RRBs a long way forward. .

SHRI JOACHIM BAXLA (ALIPURDUAR): Sir, I would like to share my views with regard to the recommendations or with regard to the suggestions made by the hon. Member Shri Basu Deb Acharia, in order to bring forward amendments to the RRB Act, 1976. This is an important subject that we are deliberating today.

As way back in 1975, five Regional Rural Banks were set up; the objective behind setting up those RRBs was really very nice because always in this august House we have been talking about the development of rural economy and we are talking about the people residing in rural areas. So, setting up of RRBs in 1975 was really a milestone in our economy.

Unless and until we strengthen the economy of our rural areas, we cannot think of overall development of India. That is the reason why it gets importance and with passage of time over the last 30 years, 196 RRBs have been made to function in the rural areas. Out of 196 RRBs in India, 165 RRBs have been running on profit. In 2003-04, we have observed that these 165 RRBs have earned a profit of Rs.930.93 crore.

Out of 196 RRBs, there are only 31 RRBs which incur loss to the tune of Rs.177.12 crore. That means, RRBs have been doing a wonderful job. RRBs as a whole earned a net profit of Rs.753.81 crore in the year 2003-04. As on 31st March, 2004, the deposit and advances of the RRBs as a whole was Rs.56,350 crore and Rs.26,074 crore respectively. CD ratio and percentage of recovery of RRBs were 46.2 per cent and 72.33 per cent. The performance of RRBs has really been wonderful. They have been doing a commendable job in regard to the economic development of rural India.

All 196 Regional Rural Banks have participated in the Self-help Groups Bank Linkage Programme, during the year 2003-04. This concept of Self-help Groups has become very-very important in regard to development of the rural sector or rural areas, particularly the women folk of the interior villages. Some of them are from forest villages and some others are from far off villages. They were never motivated with regard to deposit mobilisation. Neither have they been told regarding loans nor advances which are being made available by the Regional Rural Banks. So, Self-help Group is also playing an important role in giving support to the networking of the RRBs.

Although the concept of Self-help Group may not be scientifically acceptable to me as far as sustenance of this concept is concerned because through the Self-help Groups women are constituting groups. They are mobilising deposits from their own resources. They are bringing small deposits. Earlier there was a provision for a revolving amount against deposits mobilised by the Self-help Group women. It was to the tune of Rs.25,000 but that has been done away with. Now, whatever deposits they are making, although they are being advised to bring more individual deposits so that in turn they will be given four-fold of the amount they have been depositing, the criteria of below poverty line, the base line of below poverty line, is there. It is something like Rs.447. If their income is Rs.447 per month, how can we expect that these women can mobilise more amount through their own earning and savings?

I do not think it is scientific. However, it is to be analysed properly. I would request the Government of India to look into it in order to make this concept and the idea of Self-Help Group sustainable so that more and more benefits can go to the rural poor.

The number of Self-Help Groups linked by Regional Rural Banks increased from 77340 in 2002-03 to 4,05998 in 2003-04 which means there has been a tremendous increase in the Self-Help Groups being financed by the RRBs. The total amount of bank loan is to the tune of Rs.705.44 crore. The Gramin Banks alone cover around 40 per cent of the total Self-Help Groups. The linked bank credit cover five lakh Self-Help Groups out of 12 lakh Self-Help Groups in India which are being taken care of by different commercial banks all over India.

The Government of India has asked the Regional Rural Banks to increase their agricultural lending by 40 per cent from the level which was there in the year 2003-04 because agriculture is a priority lending. So, as far as agricultural lending is concerned, RRBs were supposed to increase their target, at least, by 40 per cent. You will be astonished to learn that within a period of nine months, they achieved their target of 40 per cent. Not only they achieve their target but within this short period of time they exceeded this target.

Now as far as agricultural lending is concerned, it is to the tune of 65 per cent of the total contribution being made by the RRBs whereas it is less than 18 per cent in the case of other commercial banks. Naturally, the RRBs have become inseparable from the rural society in our country. We can expect an important role to be played by the RRBs. While discussing the Demand for Grants of the Ministry of Rural Development, we tried to give importance to it by saying that there should be utmost care as far as flow of credit and funds are concerned which are meant for the rural sector.

Unless and until we take care of our rural India, we cannot even think of any progress of our country. Therefore, the Regional Rural Banks have been playing a very important role as far as the socio-economic development of our rural India is concerned. It is because more than 70 per cent of our total population lives in the countryside. So, we

have to be naturally very careful to find out whether this section of our population is being properly served by the commercial as well as the rural banks or not. There are branches of commercial banks also in the rural areas but the services rendered by the Regional Rural Banks are something of a special nature. The employees of the Regional Rural Banks are approaching the people at their doorsteps and thereby they are basically playing a dual role in the rural areas.

The first is the mobilisation of deposits. This is really very difficult in the rural areas. It is very difficult to motivate the people in the rural areas where people are mostly illiterate who do not have proper sources of income, who do not have proper roads, who do not have drinking water facilities and who do not have facilities for proper schooling of their children. How can we expect such people to be aware about deposit mobilisation? How can we expect them to go to the banks themselves and take advantage of the various facilities that are offered by the banks in order to improve their living standards? That role of bringing awareness amongst the rural masses is being played by the Regional Rural Banks. They are motivating the people and are making them aware about banking habits.

The other role that they are playing is that of giving credit. The interest of the artisans, the people engaged in agricultural activities and the people in the service sector is being taken care of by the Regional Rural Banks. Mere advancing of loan is not enough. We can issue credit cards to the people but unless they learn to use those credit cards for their benefit, for the benefit of the activities they are engaged in and unless they are trained as to how to generate income out of the activities they are engaged in and for which they are being financed by the banks, mere issuance of such cards is of no use. That is the problem we are facing in the rural areas. That is one of the reasons why NPA had been on the increase earlier.

But with the sincere efforts put by the Regional Rural Banks, it has come down to 12.5 per cent which is quite negligible.

Another thing is, agriculture being industrialised after globalisation, liberalisation and all these things, a new phenomenon has come up and new things are to be experimented. In this new changing socio-economic scenario, a lot of modern mechanisms are to be used. Particularly in the field of agriculture, modern technologies are to be brought into so that we will be able to compete with other countries. This is the time for competition. We cannot remain behind. We have to go forward and we cannot go forward alone. We have to take our rural India together with us. So, massive investment in rural economy is imperative. Regional Rural Banks will have to reorient their activities properly. Since the Regional Rural Banks are thinking of reorienting their activities as early as possible, they need support and they are seeking support of the Government of India so that in this present scenario, they can compete with others.

Small scale industry and service sector have a local and rural bias and can emerge as high growth area leading to employment potentiality. They are doing deposit mobilization. On the other hand, they are extending financial assistance by means of loans through different schemes to the farmers, artisans and persons engaged in service sector. At the same time, they are very sincere about generating employment to the unemployed rural young men and women.

The core sector of irrigation warrants massive investment. The RRBs, therefore, have to be geared up. That is the need of the day. That is why, I say that the focus of the Government of India should be on Regional Rural Banks as they have to be geared up to assume a pivotal role in the economic regeneration of rural India with the funds mobilised as deposits from rural areas themselves. If we make proper use of that deposit, that will be a very strong resource for their development itself. But deposits mobilised by the Regional Rural Banks should be used properly. That should not remain at one place. The adverse effect of globalisation could be neutralized in this manner to some extent by minimizing rural poverty and creating self-employment opportunities in the villages.

They are mobilising deposits. At the same time, they are extending financial support to the artisans, farmers etc. In the process, employment generation is also in the offing. Unemployment problem is being arrested. They are trying to resolve this problem also to the extent possible by creating jobs, by giving loans to the educated unemployed and to our sisters who are forming Self-Help Groups. But transferring resources from rural to urban areas through sponsored banks, I think, is an aspect which needs to be looked into very carefully. Deposits are being mobilised by the Regional Rural Banks from the rural areas. But through sponsored banks these deposits are being transferred and shifted to urban areas. We have to be very careful about it. I do not demand that the entire amount or the entire deposits should be sent back as lending to the rural areas. But part of it must be spent for the development of the rural areas.

Against the borrowing of Rs. 4710 crore by the Regional Rural Banks from the sponsored banks, which is Rs. 450 crore, and the NABARD, which is Rs. 4,260 crore, the RRBs' deposits to the order of Rs. 32,000 crore are lying parked with the sponsored banks and different other approved organisations as on 31st March, 2003. So, this aspect has to be looked into very carefully. There must be an end to this hoax, which is going on in the name of

monetisation of the rural economy. The re-organised structure may be harnessed as an effective instrument for fighting against the massive outflux of resources from rural to urban areas. ...(*Interruptions*)

Therefore, I would like to suggest -- it has been suggested by some other hon. Members also -- that a National Rural Bank be constituted through which restructuring of all the Regional Rural Banks can be done in order to give proper shape to the Regional Rural Banks. It is very important. I would request the Government of India to bring in a legislation to this effect. In order to strengthen RRBs, something solid has to be done. This is high time we should have done it, when we are giving importance to the rural India.

Finally, I would suggest that the Government of India should come forward with concrete steps in order to strengthen the Regional Rural Banks. It has to be restructured and monitored properly so that ultimately the objective of setting up proper Regional Rural Banks is fulfilled..

SHRI SURAVARAM SUDHAKAR REDDY (NALGONDA): Thank you, Sir. I think, we are at the fag end of the day. We are discussing a very important subject which is concerned with the 78 crore of the population of our country. The Regional Rural Banks (RRBs) have started with a noble idea of more effectively giving credits to rural population, particularly, agriculture and Self-Help Groups (SHGs) and all that. It has been fulfilled successfully, though not totally satisfactory. There are several lapses, of course....(*Interruptions*)

MR. CHAIRMAN : Next time, you will continue your speech.

The House stands adjourned to meet on Monday, the 2nd of May, 2005 at 11.00 a.m.

18.00 hrs.

*The Lok Sabha then adjourned till Eleven of the Clock
on Monday, May 2, 2005/Vaisakha 12, 1927 (Saka).*
