

## ACKNOWLEDGEMENTS

The Task Force report is the product of many collaborative efforts. The Task Force met and discussed on various aspects of empowerment of Boards of RRBs for operational efficiency. The Task Force wishes to place on record, its gratitude to Dr. Y.V. Reddy, Governor, Reserve Bank of India for entrusting this task of national importance as also for providing necessary guidance. Smt. Usha Thorat, Deputy Governor, Reserve Bank of India had taken initiative to call a consultation meet of commercial banks and gave valuable inputs for the Task Force. We thank her as well as all the senior personnel of RPCD of Reserve Bank of India. The Task Force generated and considered a vast amount of materials in its deliberations and meeting with stakeholders and others. We would also like to mention the cooperation received from NABARD officials of Uttar Pradesh RO, Lucknow, Bihar RO, Patna and Assam RO, Guwahati, and the Chairman and staff of Baroda Eastern UP Gramin Bank, Assam Gramin Vikas Bank, and Uttar Bihar Kshetreyia Gramin Bank, who not only coordinated the field visits at their end, but also provided significant inputs.

2. The Task Force Secretariat has played a crucial role in collecting information, analysing data and preparing background notes. The Task Force has a special word of commendation for the Secretariat set up for it by NABARD. The Task Force would like to mention Shri Lajja Ram, CGM, Shri P Satish, CGM, Shri B.B.Mohanty, CGM, Shri U.N. Srivastava, CGM, Shri D P Mishra, GM, Shri M.V. Ashok, GM, Shri K.S. Pillai, DGM, Shri N.C. Saha, DGM, Shri N.P. Mohapatra, AGM, Shri P.K.Kapoor, AGM, Shri S.J. Parkar, Manager and Shri Sunil Kumar, Asst.Gen.Manager, NABARD, Head Office, Mumbai who brought to bear on the logistical and operational aspects as also in collating and analyzing inputs received from various quarters. The contributions of Smt. Vandana Venugopalan, Smt. Bharti M. Jagasia, Smt. Geeta Yadav, and Shri V.P. Khapekar, for their secretarial assistance are acknowledged. We also acknowledge the contribution made by Monitoring Section of IDD comprising of Dr.U.S.Saha, DGM, Shri V.Mani, Manager and Shri A.K.Bohite . The Task Force would like to thank the Training Establishments of NABARD and particularly Sri G R Chintala, Faculty Member, BIRD, Lucknow for their valuable inputs. The Task Force also wishes to thank many learned experts from Govt. of India, Reserve Bank of India, NABARD, State Governments, Sponsor Banks, RRBs, RRB Staff / Officer Associations and others for their significant contributions.

3. I am grateful to all the members of the Task Force for their active participation in the deliberations in the meetings and their valuable contributions and suggestions. I thank Dr.R. Balakrishnan, ED, NABARD and Member-Secretary of the Task Force for his wholehearted involvement in finalising the report, within a short span of time.

**(Dr. K.G. Karmakar)**  
**Chairman**

**Place: Mumbai, 31 January 2007**

## INTRODUCTION

Unlike other commercial services, almost every individual needs financial services. One of the factors of the rural urban divide is the limited availability of financial services to the rural population. The introduction of the RRBs from the year 1975 was a bold attempt to ensure savings and credit opportunities to the rural population. The contribution of the RRBs to financial inclusion in rural areas has been significant. 196 RRBs, before the recent mergers, had a network of 14494 branches. They serviced 57952419 saving accounts and 12364391 loan accounts. They mobilised Rs.72510 crore as deposits and lent Rs.39764 crore as on 31 March 2006. Their role in micro finance coverage and the doubling of credit to agriculture has been noteworthy. It is also true that the banks are yet to attain their full potential in extending rural financial services. The reasons can be traced to issues of ownership, governance, human resources management, viability, etc. The need for a review of some of these complex issues has been felt.

2. The banking sector in India was highly regulated till the early nineties. The reforms of the banking sector since then, covered the introduction of prudential norms and deregulation of interest rates except for small loan accounts, etc. Even after deregulation, the banks continued to enjoy low cost funds from savings accounts. Recently, RRBs sponsored by the same commercial banks in a State have been merged and some more are in the process of merger. This has brought down the number of banks to 102 from 196.

3. In order to strengthen Regional Rural Banks (RRBs) and make them viable rural financial institutions, various measures have been taken from time to time. With a view to enhancing the operational efficiency of RRBs, Reserve Bank of India, vide its letter no. RPCD.CO.No.RRB. 2584 /03.05.33 (F)/2006-07 dated 11 September 2006, set up a Task Force to deliberate on areas where more autonomy could be given to the Boards of RRBs. The constitution of the "Task Force on Empowering RRB Boards for Operational Efficiency" is as under:

### Chairman

Dr. K.G. Karmakar, Managing Director, NABARD

### Members

1. Shri G.C. Chaturvedi, IAS, Joint Secretary, Ministry of Finance, Government of India
2. Shri A.K. Das, Special Secretary, Government of West Bengal
3. Dr.K.V. Rajan, Regional Director, Reserve Bank of India, Bhopal
4. Shri K. Bhattacharya, General Manager, Rural Planning & Credit Department, Reserve Bank of India, Mumbai.
5. Shri Anup Banerjee, Dy. Managing Director, State Bank of India, HO, Mumbai
6. Shri V.K. Nagar, General Manager, Punjab National Bank, HO, New Delhi
7. Shri T.V. Bhat, General Manager, Syndicate Bank, HO, Manipal
8. Shri N.S. Bose, Chairman South Malabar Gramin Bank, Malappuram, Kerala

### Member Secretary

Dr. R. Balakrishnan, Executive Director, NABARD, Mumbai

4. The Terms of Reference of the Task Force are as under:

a) To review the present position, including policies and practices, in RRBs in the following areas:

Human resources management and development

Resource mobilisation and deployment of funds

Business environment and strategies

Legislative framework, including rules and regulations governing RRBs

b) To suggest measures for empowering the Boards of RRBs for operational efficiency, particularly in matters relating to

Evolving and implementing appropriate strategies/policies for assessment of manpower requirement as also recruitment, deployment, upgradation of skills and promotion of staff/officers, including schemes for performance oriented incentives/disincentives.

Exploring alternate investment avenues as also introduction of new products/activities.

Evolving appropriate strategies for facing business challenges in rural areas, including developing a complete range of financial services for rural clientele.

Considering any consequential changes that may be required in legislation, rules and regulations governing RRBs.

- c) To elucidate how autonomy of the Boards of RRBs can be ensured while safeguarding the oversight of the Empowered Committees for RRBs.
- d) To consider any other issues relating to the above areas.

4.1. The Reserve Bank of India in their letter dated 11 September 2006 also indicated that the following points might be taken into consideration by the Task Force.

- (i) Potential adverse impact of the withdrawal of interest on eligible CRR balance by RBI on the revenues of RRBs and their demand for restoration of interest on eligible CRR balances.
- (ii) Review of the categorisation of branches, staffing norms and promotion policy in view of the general Increase in the business turnover of RRBs.
- (iii) The need for lifting of embargo on recruitment to overcome the problem associated with the acute staff shortage and their adverse age profiles and the training requirements of existing staff.
- (iv) Problems faced by the amalgamated RRBs due to lack of uniformity in IT packages inherited from the pre-amalgamated Banks and the need for standardisation of software packages.

It was further clarified that these four points are not advisory in nature but are suggestions for scrutiny by the Task Force.

#### 5. Approach and Guiding Principles

- (i) Views of the Directorates of Institutional Finance of some of the State Governments, GOI and RBI on the ToRs, sought.
- (ii) Input from the sponsor banks of the RRBs on the ToR requested.
- (iii) Opinions of the RRB Associations/Unions obtained.
- (iv) Collection of field visit inputs by Task Force members by conducting quick studies.
- (v) Study of existing literature and recommendations of the various Expert Committees on RRBs like those headed by Prof. Vyas, Shri K P Agrawal, Smt. Usha Thorat (North East Regional Financial Plan), Shri A.V. Sardesai (Internal Working Group by RBI), etc.

6. The Task Force held 04 meetings i.e. on 28 September 2006, 26 October 2006, 11 December 2006 and 28 December 2006 to firm up the recommendations. In the first meeting of the Task Force held on 28 September 2006, it was decided to:

- (i) Analyse the statistical information, literature, inspection reports and other documents relevant to RRBs, available with NABARD.
- (ii) Scan various reports on RRBs (Contents of the Reports summarised at Annexure – I.1)
- (iii) Collect data through questionnaire from RRBs on investments, manpower planning and deployment.
- (iv) Incorporate relevant views from various sources.

In the second meeting of the Task Force held on 26 October 2006, it was decided to conduct an impressionistic study to have a feel of the problems confronting some of the amalgamated RRBs. Three teams comprising of Task Force members visited three amalgamated banks having Head Quarters at Guwahati, Muzaffarpur and Rae Bareli. Besides, on 8 November 2006, Chairman of the Task Force had a meeting with a team of RBI officials led by Smt. Usha Thorat, DG, RBI and senior executives of SBI, BOB, CBI, UBI, etc. where discussions were held on some of the important issues relevant to the Task Force.

In the third meeting of the Task Force held on 11 December 2006, the draft report was placed before the members for discussion and it was clarified by the representatives of RBI that the legislative changes referred to the Terms of Reference needed to be examined in the context of bringing about operational efficiency and these do not cover the areas of ownership or shareholding pattern and as such the report may be amended accordingly.

The fourth and final meeting of the Task Force was held on 28 December 2006 and members endorsed the Final Report and Recommendations. Further editing was then done on the basis of discussions and the final report submitted to RBI on 31<sup>st</sup> January 2007.

As per the ToR, the report is structured as under:

Chapter 1 - Rural Credit and Regional Rural banks

(Performance overview, Rural financial scenario, RRBs and rural credit, RRBs and ongoing financial sector reforms, redefined role of RRBs in financial inclusion)

Chapter 2 - Stakeholders and empowering the Board of Directors

(Present role-play by Various Agencies, Amalgamation of RRBs, Current Status, Need for change after the amalgamation, Proposed change in view of the enlarged responsibility, Empowered Committee and RRBs.)

Chapter 3 - Financial Resources Management

(Financial Resources, Need for diversification, Responsibilities of the Board, External Support for Resource Management, Present Avenues of Resource Mobilisation, Possible sources of resources of RRBs and deployment thereof, New Avenues of Investment, Constraints and issues, How RRBs can manage investment on stand alone basis-support system, Enlarging the scope of the Board.)

Chapter 4 - Business Policy and Products

(Product and Services-Innovations, Experience of RRBs, Experience of Other Countries, RRBs to become One Stop Banking and financial service provider)

Chapter 5 - Organisational Structure & Human Resources Management

(Revised Structure of Amalgamated RRBs, Business Turnover and Categorisation of Branches, Three Tier system, Decentralisation and Delegation, Revisiting Agrawal Committee Recommendations, Man power Planning, Recruitment, Transfer and Placements, Promotion Opportunities, upgradation of skills, Incentive for Performance, Autonomy of the Board, Redeployment of Staff Members)

Chapter 6 - Internal Checks and Controls

(Revised Norms, Need for Board Supervision)

Chapter 7 - Modernisation of the Operating System

(Problems at operational level, Need to address through Standardization, Computerisation, IT platform)

Chapter 8 - Rural Banking in the North Eastern Region.

(Endorsement of Recommendation of the Committee on Financial Sector plan for North Eastern Region, empowerment of the Board of RRBs, Attention to educated unemployed, recruitment and training)

We record our sincere thanks to Govt. of India, Reserve Bank of India, RRBs across the country, various State Governments, RRB Associations and numerous individuals and organisations which participated in the consultation meetings and those who gave their views in written memoranda.

In conclusion, all members of the Task Force and the professional staff that helped us, are of the unanimous view that this has been one of the most satisfying assignments ever handled. This is so because the Task Force was assigned the task of unleashing the growth potential and energies of the RRBs, thereby enabling greater financial inclusion of the rural poor and have-nots.

<b>Dr. K.G. Karmakar</b>		
<b>Chairman</b>		
<b>Shri G.C. Chaturvedi</b> <b>Member</b>	<b>Shri A.K. Das</b> <b>Member</b>	<b>Dr.K.V. Rajan</b> <b>Member</b>
<b>Shri K. Bhattacharya</b> <b>Member</b>	<b>Shri Anup Banerjee</b> <b>Member</b>	<b>Shri V.K. Nagar</b> <b>Member</b>
<b>Shri N.S. Bose</b> <b>Member</b>	<b>Shri T.V. Bhat</b> <b>Member</b>	<b>Dr. R. Balakrishnan</b> <b>Member -Secretary</b>

**Mumbai: 31 January 2007**