

Regional Rural Bank (RRBs)

Overview

Regional Rural Banks (RRBs) were established in 1975 under the provisions of the Ordinance promulgated on the 26th September 1975, followed by Regional Rural Banks Act, 1976 with a view to develop the rural economy and to create a supplementary channel to the 'Cooperative Credit Structure' and enlarge the institutional credit system for the rural and agriculture sector. The Government of India, the concerned State Government and the bank, which had sponsored the RRB contributed to the share capital of RRBs in the proportion of 50%, 15% and 35%, respectively. The area of operation of the RRBs is limited to a few notified districts within a State. The RRBs mobilise deposits primarily from rural/semi-urban areas and provide loans and advances mostly to small and marginal farmers, agricultural labourers, rural artisans and other segments of priority sector.

Amalgamation

In 2001, the RBI constituted a Committee under the Chairmanship of Dr. V. S. Vyas on “Flow of Credit to Agriculture and Related Activities from the Banking System” which examined relevance of RRBs in the rural credit system and the alternatives for making it viable. The consolidation process was initiated in the year 2005 as an off-shoot of Dr. Vyas Committee Recommendations. In the first phase of amalgamation of the RRBs in 2005, it was Sponsor Bank-wise within a State, the second phase in 2012 was across the Sponsor banks within a State and the third phase in 2019-20 was consolidation of RRBs on the principle of One State One RRB in smaller States and reducing the numbers in bigger States. The proposal for amalgamation of RRBs in Andhra Pradesh, Telangana, and Odisha is under process. NABARD has been actively involved in the amalgamation of these banks. The process was initiated with a view to provide better customer service by having better infrastructure, computerization, experienced work force, common publicity and marketing efforts etc. The amalgamated RRBs also benefit from larger area of operation, enhanced credit exposure limits for high value and diverse banking activities. After successive amalgamations, the number of RRBs in the country stood at 43 as on 31st March 2023, with a network of 21,999 branches covering 708 notified districts in 26 States and the

3 UTs of Puducherry, Jammu & Kashmir and Ladakh. There is no RRB in Sikkim, Delhi and Goa.

Review Meets

Half-yearly review meetings of RRBs are conducted based on 'Performance Assessment Report' generated through ENSURE portal to discuss issues with special reference to profitability, asset quality, investment management, governance issues, etc.

Monitoring the Performance of RRBs

- RRBs, meeting any one of the three criteria viz. CRAR less than 10%, GNPA more than 10 %, having negative Return on Assets (%) for the last two consecutive years are classified as 'RRBs in Focus'. The mechanism of 'RRBs in Focus' serves as a signal of caution to the RRBs to initiate remedial measures to avoid further deterioration of their financials and slippage into the 'Prompt Corrective Action' (PCA) framework.
- Based on the audited financial position as on 31 March 2023, there are 15 'RRBs in Focus' in comparison to 16 RRBs as on 31 March 2022.

Recapitalization of RRBs

- During FY 2021-22 GoI decided to infuse ₹10,890 crore (GoI share (50%)- ₹5,445 crore) of capital in RRBs during FY 2021-22 and FY 2022-23.
- The total recapitalization assistance to RRBs during FY 2022 and FY 2023 would amount to ₹10,890 crore after proportionate share capital contribution by State Governments (15%) and Sponsor Banks (35%). It may be noted that the total capital infusion by all stakeholders from 1975 till FY 2020-21 was only ₹ 8,393 crore.

Objectives of the scheme

- RRBs have been regularly infused with capital in the past to help them meet the regulatory requirement of 9% CRAR (Capital to Risk Weighted Assets Ratio).
- However, this latest scheme aims to rejuvenate and revitalize the RRBs with sufficient growth capital to facilitate reinventing themselves as sustainably viable and self-sufficient financial institutions and for leading the growth process and the

change in rural areas. The capital infusion will help RRBs in technology adoption and to efficiently cater to the financial inclusion needs of the rural populace.

- Further, the recapitalization scheme is accompanied by operational and governance reforms under the broad ambit of Sustainable Viability Plan with a well-defined implementation mechanism aimed at credit expansion, business diversification, NPA reduction, cost rationalization, technology adoption, improvement in corporate governance etc.

Amount Sanctioned and released

- An amount of ₹ 8,168 crore (GoI Share: ₹ 4,084 crore) was sanctioned as recapitalisation assistance to 22 RRBs for FY 2021-22.
- Department of Financial Services, GoI vide their sanction letter dated 28 March 2022 accorded approval for placing GoI's share of ₹4,084 crore towards recapitalization of 22 RRBs at the disposal of NABARD, with the advice to release the GoI's share to RRBs on pro-rata basis, depending upon the proportionate prior release of the funds by the Sponsor Banks and the State Governments.
- As on 31 March 2023, NABARD has released GoI's share, in full amounting to ₹4,084 crore to 22 RRBs.
- DFS, GoI sanctioned an amount of ₹2,722 crore (GoI Share: ₹ 1,361 crore) for the FY 2022-23 to 22 RRBs. As on 31st March 2023, 10 RRBs have received an amount of ₹ 651.42 crore from their respective Sponsor Banks.

Dashboard- RRB दर्शन

RRBs have been implementing three year sustainable Viability Plans containing Specific, Measurable, Achievable, Relevant and Time-bound (SMART) indicators since FY 2022-23. To continuously monitor the performance of RRBs against their board approved viability plans, NABARD (IDD-HO) has developed a dashboard for continuous monitoring of RRBs. The dashboard captures data across 140 quantitative and qualitative parameters on a monthly basis from RRBs and the performance of the RRBs against their board approved viability plans, presented through ingenious reports and charts. The dashboard was unveiled on 14 November 2022.

Important Policy Developments

- **Relaxation in criteria for Registration- CGTMSE:** The criteria for registration/re-registration of RRBs as Member Lending Institutions (MLIs) with CGTMSE have been relaxed and the criterion mandating 'A' rating (score of 75 and above) under NABARD composite rating model has been removed (notification dated 8 October 2021). Further, in view of growing need of credit in rural economy, CGTMSE has decided to allow Retail Trade as an eligible activity under the Scheme for RRBs for credit facilities up to ₹ 50 lakh (the maximum limit for coverage for RRBs).
- **Raising Resources from Capital Markets by RRBs:** DFS has issued guidelines on raising resources from Capital Markets by RRBs on 14 September 2022.