

**ROLE OF REGIONAL RURAL BANKS IN RURAL  
DEVELOPMENT OF ASSAM: A CASE STUDY**



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## DECLARATION

I, HEMA PRAVA DEORI, pursuing Master of Laws (LL.M.) from National Law University and Judicial Academy, do hereby declare that the dissertation titled “ROLE OF REGIONAL RURAL BANKS IN RURAL DEVELOPMENT OF ASSAM: A CASE STUDY” is an original research work and has not been submitted either in part or full anywhere else for any purpose, academic or otherwise, to the best of my knowledge.

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## PREFACE

As a part of the Business Law Specialization as well as to achieve a broad knowledge and information in the particular field of banking and especially rural banking in India, it is thus mentioned that the dissertation paper titled “Role of Regional Rural Banks in Rural Development of Assam: A Case Study” is being taken for the purpose of learning and gathering more handful knowledge related to Regional Rural Banks with more insight into Assam Gramin Vikash Bank of Assam. The sole aim behind the paper is to analyze the importance of Regional Rural Banks just as any other commercial and co operative banks operating in India. The basic objective behind doing this paper is to introduce the Regional Rural Banks in a different and easier way to understand its impact and how it is contributing financial aid predominantly to the priority sectors as well as vulnerable mass of the country.

In this study, the focus is to cover the gradual growth and development of Regional Rural Banks in granting rural economy along with fulfilling credit needs of the backward sections of society. The study is divided into two parts. First part of the study is involved in revealing the inception of Regional Rural Banks; laws related to it and various amendments and events that took place from time to time. On the other hand, Second part of the paper deals with various study and analysing the one and only Regional Rural Bank of Assam i.e. Assam Gramin Vikash Bank in order to understand the background behind the upsurge of financial rural economy in Assam as an important part of the paper.

## **Table of Cases**

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1955 - State Bank of India Act

1968 - Banking Laws (Amendment) Act

1976 - Regional Rural Bank Act

1981 - National Bank for Agriculture and Rural Development Act

2000 – Right to Information Act

### Table of Abbreviations

1.	AGVB	Assam Gramin Vikash Bank
2.	AIRCS	All India Rural Credit Survey Committee
3.	AM	Area Manager
4.	AP	Andhra Pradesh
5.	APY	Atal Pension Yojana
6.	ARDC	Agricultural Refinance and Development Corporation
7.	BHIM	Bharat Interface for Money
8.	BODs	Board of Directors
9.	BSB	Basic Saving Bank
10.	C.A.	Current Account
11.	CBI	Central Bank of India
12.	CCEA	Cabinet Committee on Economic Affairs
13.	CCI	Competition Commission of India
14.	CGB	Commercial Banking Group
15.	CJ	Chief Justice
16.	CRAFICARD	Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development
17.	CRAR	Capital to Risk Weighted Assets Ratio
18.	CSR	Corporate Social Responsibility



19.	DGM	Deputy General Manager
20.	E-COM	Electroninc Commerce
21.	FPCs	Farmer Producer Companies
22.	FY	Financial Year
23.	GCC	General Credit Card
24.	GoI	Government of India
25.	HC	High Court
26.	HFC	Housing Fiance Companies
27.	IFI	International Financial Insitution
28.	IMPS	Immediate Payment Service
29.	KCC	Kisan Credit Card
30.	LDRB	Langpi Dehangi Rural Bank
31.	LGB	Lakhimi Gaonlia Bank
32.	MCA	Ministry of Corporate Affairs
33.	MFI	Micro Finance Insitutions
34.	MoU	Memorandum of Understanding
35.	MP	Madhya Pradesh
36.	MSME	Micro, Small & Medium Enterprises
37.	NABARD	National Bank for Agricultural and Rural Development
38.	NB	National Bank
39.	NBFC	Non-Banking Financial Company
40.	NCB	Nationalised Commercial Banks
41.	NE	North East
42.	NHB	National Housing Bank

43.	NIT	National industrial Tribunal
44.	NPA	Non-Performing Assets
45.	NSTFDC	National Sheduled Tribes and Development Fiance Corporation
46.	PGB	Pragjyotish Goanlia Bank
47.	PMAY	Pradhan Mantri Awas Yojana
48.	PMEGP	Prime Minister's Employment Generation Programme
49.	PMJJBY	Pradhan Mantri Jeevan Jyoti Bima Yojana
50.	PMSBY	Pradahh Mantri Suraksha Bima Yojana
51.	POS	Point of Sale
52.	RBI	Reserve Bank of India
53.	RRB	Regional Rural Bank
54.	RSETI	Rural Development and Self Employment Training Institute
55.	SB	Saving Bank
56.	SBI	State Bank of India
57.	SC	Supreme Court
58.	SC/ST	Scheduled Castes/ Scheduled Tribes
59.	SFAC	Small Farmers' Agribusiness Consortium
60.	SHG	Self Help Group
61.	SIDBI	Small Industries Development Bank of India
62.	SM	Senior Manager
63.	ST (SAO)	Short Term Seasonal Agricultural Operations
64.65.	SVAYEM	Swami Vivekananda Assam Youth Empowerment
66.	UoI	Union of India
67.	UPI	Unified Payments Interface

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# CHAPTER-1

## INTRODUCTION

### **ABSTRACT:**

Regional rural banks, a part of scheduled commercial banks, are playing a commendable role since its establishment. The motive behind establishment of these regional rural banks is to provide easy access of banking facilities and developing and uplifting the weaker sections of the society in the form of advancing credits and loans to the agricultural sectors, marginal farmers, small scale and cottage industries, rural and semi-urban sectors, handicrafts, village industries. At present, the bank branches of these banks are found in all rural parts of India except the state of Goa and Sikkim and Union territories of India. Regional Rural Banks (hereinafter referred to as RRBs) are also established in Assam with the sole object of upgrading the rural areas by assisting through financial aid to the needy ones. The study focuses on both past and present scenario the RRBs are playing role in developing the rural areas in the state of Assam. However, at present most of the regional rural banks in Assam are suffering from the problems of huge credit and loan debt, recovery, non-performing assets and other problems. This paper attempts to analyze how the regional rural banks are working together with NABARD positively in crediting the rural areas of Assam in current scenario.

*Key words: Regional Rural Banks, NABARD, Assam.*

### **1.1. INTRODUCTION:**

The Regional Rural Banks( hereinafter referred to as RRBs) are the Scheduled Commercial Banks which is included under second schedule of the RBI Act, 1934.<sup>1</sup> These RRBs are established after post Independence and is mostly the outcome of bank nationalisation in India. The Banking Commission in the year 1972 recommended for the establishment of a separate financial institution to regulate the rural credits in different parts of rural India. The consequence is the Govt. of India accepted the proposal and

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<sup>1</sup> Reserve Bank of India Act, 1934, No. 02 Acts of Parliament, 1934.

established a different financial institution called Regional Rural Banks particularly to deal with rural credit and deposits transactions on the basis of the recommendations of the Working Group under the Chairmanship of M. Narashimham.<sup>2</sup>

The RRBs are established with the sole motive of providing easy access to banking facilities to the people residing in the rural areas of India. Before bank nationalisation, Commercial banks did not paid any sufficient attention towards the priority sectors resulting in partiality among the big business houses and agricultural and small scale industries. This priority sector which includes agricultural sector and rural sectors also were deprived from grasping the opportunity to develop their agriculture and farming products leading to poverty and deplorable living condition. The RRBs thus mainly initiated to help the people living in the rural areas to claim the different agriculture credits and loans facilities from these rural banks.

Being isolated in terms of geographical region these RRBs are facing difficulties in coming direct contact with the Government. Unable to foresee the diverse issues these banks are suffering; it leads to a gap between the Government and RRBs. Many times it is observed that lack of attention is given towards the upliftment of these rural banks because of the distance and less communication which is one of the demerits and can be solved only by proposing a proper communication between the two. Another problem related with the geographical area is that most of the RRBs are located in the core of backward areas. This gives rise to transportation problem either to the employees of the bank or the people living nearby. Further most of the employees come from the urban background which constitutes hardship for them to survive in rural environment which is one of the chief root that there are fewer employees as related to other banks. To overcome like dilemma the geographical area should be kept in mind while expanding the branches of these banks. Many other obstacles such as illiteracy, lack of awareness and knowledge of the bank by the disadvantaged and the rural people; the overall growth of the regional rural banks are suffering badly. Instead less profits, more debts are going

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<sup>2</sup> N. Sabitha Devi, *Problems and prospects of Regional Rural Banks in India*, Vol 2 Issue 3, IJMSR, 71 (2016).



inside the RRBs giving surge to more NPAs and unsatisfactory economy to the country. It thus becomes very important to prevail the basic banking knowledge to these backward people and get familiar with them in order to tighten the bond and trust between the bankers and the creditors to lessen the burden of debts.

### **Phases of RRBs:**

The RRBs enacted under the RRB Act, 1976 has gone through several stages from being allotted to limited regional areas to expand its operations to vast rural regions; extended functions and mergers of different RRBs in the state and so on. Thus, modification and transformation of RRBs are not result of a single process. Therefore, four major processes are involved in gradual progress and prosperity of RRBs in shaping the rural banking in the nation. Transformation of RRBs, itself from its enactment of the RRB Act upto year 2019 are explained I four different major stages.

#### **1) Extension Stage (1976-1986):**

The year 1976-1986 can be denoted or comes under the expanding period. It is due to the reason that RRBs started functioning all over India only after its establishment i.e. from the year 1976. An apex growth was witnessed soon after its opening of RRBs and as such 6 RRBs were first introduced in the beginning of the year 1976 and thus setting up of RRBs increased and reached 196 towards the end of the year 1987. Moreover, along with the establishment of the RRBs, its branches also expanded tremendously and settled across different regions of the country. Thus, as a result of this stage, RRBs along its branches throughout the country, many businesses bloomed and increased successively. Therefore, it can be stated that the extension stage is one of the glorious phase of RRBs.

#### **1) Declining Stage (1986-1995):**

After witnessing huge development in the extension stage, downfall of RRBs was felt excessively during the declining stage between 1986-1995. During these years, many committees were formed seeing the difficulties are faced by the RRBs. Performance and working of RRBs dropped to a poor level. Many RRBs struggled to carry out their operations smoothly. More and more debts increased whereas recovery mechanisms

failed to collect the due amount. The burden compelled these RRBs to pick up some unusual working procedure which was totally uncertain and was not able to assure the surety of success. This unplanned tactics and plans resulted in heavy loses and casualties. Overall the scenario of growth and development of RRBs banished during this particular period. On the other hand, other measures that were opted to survive the huge casualties included swapping towards small investment banking as one of the turn around strategy.

### **3) Revised Stage (1996-2006):**

The revise stage or it can be described as the revival phase where losing RRBs were tried to fix to achieve the objectives of rural banking in “rural and semi-urban regions” across the country. During this stage, Committee such as Basu Committee was formed in 1996 with the purpose to renovate existed RRBs and suggestion such as liquidation of those RRBs who fails to participate in updating process of RRBs. Moreover many more committees like Expert group on RRBs also known as Thingalaya Committee in 1997 was formed where suggestion such as powerless RRBs are either to be wind up or to annex them with the neighbouring RRBs.

During this stage, initiation was taken towards recapitalisation process of RRBs. Important factors such as funding non-target group was also considered, as well as an important responsibility was given in the hands of Sponsor banks . Extra responsibility was handover to Sponsor banks in developing and improving the activities and workings of RRBs.

### **4) Consolidation Stage (2006-2019):**

This stage is popularly known as consolidation stage. During this phase, amalgamations of RRBs started to take place gradually. First phase of amalgamation initiated in between 2005-2006 that resulted in decrease in the total number of RRBs where by the year 2010, no. of RRBs decreased to 82 from total 196. Then Second phase was introduced in 2011-12 where RRBs were reduced to 56. Third phase took place in 2018-2019 and outcome was 56 no. of RRBs declined to a lesser number. It can be said that presently there are 45 number of RRBs operating throughout the country. Within this phase, more responsibility are assigned to Sponsor Banks related to RRBs. It is significant to mention that during this consolidation stage operations and working RRBs became paramount. Moreover,

amalgamations occurred within RRB of similar Spons. banks and consolidation of “one RRB in one state”.

<i>Extension Stage(1976-1986)</i>	<i>Declining stage (1986-1995)</i>	<i>Consolidation stage(1996-2006)</i>	<i>Revised Stage(2006-2019)</i>
Opening of RRBs(from 5 in 1976 to 196 in 1987)	Improbable procedure	Recapitalisation	More responsibility to sponsor banks
Branch expansion	High Casualties	Finding non target group	Growth of operations became paramount
Increase in volume of business	Swap to small investment banking as turnaround strategy	Extra responsibility to Sponsor banks	Amalgamation of RRBs of same sponsor banks; amalgamation of one RRB in one state

**Source:** NABARD Annual Report(2018-2019).

## 1.2.SIGNIFICANCE OF THE STUDY

The paper called “ Role of Regional Rural banks in Rural Development of Assam: A Case Study” focuses on the origin and growth of “Regional Rural Banks” in India and the reasons behind implementing these RRBs in India even after the existence of commercial and co-operative banks in generating credits to the rural and priority sectors. Importance of RRBs in NE region and how in present times “Assam Gramin Vikash Bank” has emerged as one of the popular and successful RRB in promoting rural credit in villages and unbanked areas. The study indicates the various reasons behind implementation of RRBs and how these banks are functioning in the state of Assam. The researcher here studies the importance of RRBs in Assam and how it is working in the present generation. In addition the paper also focuses on evolution of RRBs in Assam and why the RRBs got amalgamated into “Assam Gramin Vikash Bank”; functioning of “Assam Gramin Vikash Bank” towards better credit facilities to rural areas along with various hurdles it is facing in the past as well as in the present to secure its better position in aiding the finance for rural development of Assam. Another significance is put on the

present banking condition of “Langpi Dehangi Rural Bank” after it’s merged in AGVB in providing financial and rural credit to the people of Karbi Anglong.

The objective behind the study is to analyze the Regional Rural Banks thoroughly which is often not given a major place as compared to other banks. The researcher is trying to grab the attention towards the various problems and issues these RRBs are facing from the past until present and how it is proving detrimental towards achieving its successful goal. The researcher also tries to enumerate different problems which the current RRBs in Assam are facing and what changes could be added in eradicating such problems is also a matter of concern here. Moreover how RRBs like Assam Gramin Bikash Bank is playing a commendable role in securing financial aid to the “marginal and small farmers” along with various rural, small and cottage industries will also be analyzed by the researcher and details of various achievements and growth of the “Assam Gramin Vikash Bank” will be provided by the researcher after conducting a field study on it. In this particular paper, the sole aim of the researcher is to introduce the concept of RRBs which is quite often given less importance due to its less impact on contributing economy to the country. Thus, the goal is to identify the various defects affecting the progress of RRBs and introducing many opportunities and ideas that might help in the growth of economy along with providing the best banking services to the disadvantaged ones. Thus the motive of the researcher is providing its best efforts in giving a new outlook to the existing RRBs in India and most importantly in Assam and how further recommendations can be introduced to enable these RRBs in imparting more and more rural growth and development.

### **1.3.AIMS AND OBJECTIVES:**

2. To find out the source of rural credit in Assam with reference to the Assam Gramin Vikash Bank.
3. To focus on the workings of various agencies in collaboration with Regional Rural Banks in contributing rural economy.
4. To study the growth pattern and various factors influencing growth and development of Regional Rural Bank in Assam.

5. To study the consequences of amalgamation of Regional Rural Banks throughout India as well as Assam in terms of performance.
6. To state the various hurdles and challenges to be faced by the Regional Rural Banks.
7. To study the current position of RRBs in entire NE region and Assam.

#### **1.4. RESEARCH QUESTIONS:**

1. What is the impact of recapitalisation and merger process on growth and development of RRBs in present scenario?
2. What is the role played by the “Regional rural Banks” in bringing out rural development with special reference to the state of Assam?
3. What are the numerous challenges and constraints faced by the Regional Rural Bank in present times?
4. What is the account of progress made by the Regional Rural Banks since their inception with special reference to the state of Assam?
5. How the “Assam Gramin Vikash Bank” is contributing financial credit to the rural areas in Assam?
6. How the various agencies of Regional Rural Bank contributing to its functioning along with providing financial aid during the pandemic situation in India?
7. What are the diverse measures being adopted by Assam Gramin Vikash Bank in conquering various achievements and development in the entire state of Assam?

#### **1.5. STATEMENT OF PROBLEM**

The “Regional Rural Banks” are set up to provide easy and accessible financial help to the deprived mass living in the backward areas. This would in turn bring out the overall aid and assistance to the people in terms of development and finance. The RRBs are involved in providing credit and other financial help to the people so that they can utilize the same in some productive activities which will help the people to become

economically sustainable. This bank acts in a proper institutional structure which will act as a catalyst to the rural development. .

The rural people have different socio-economic background and they also belong to different geographical locations. Many a time they are not able to access the facilities provided by the government due to such constraints. At this juncture the RRBs were set up to provide some confidence among the rural population so that they can also take active part in the economy of the country.

The problem to be stated here is there are various hurdles and challenges that the RRBs in Assam are facing in current times thus there is the need of taking effective procedure or solution in tackling the existing problems. The need of the requirement to adopt different initiatives by the regional rural banks of Assam so that it can provide a sense of security among the people and aid the agricultural sectors more efficiently is also a matter of concern.

#### **1.6.SCOPE AND LIMITATION:**

- The study covers the working of Regional Rural Banks in Assam.
- The study covers annual reports of NABARD and Assam Gramin Vikash Bank.
- The study is narrowed to some small portion of RRBs of NE India.
- The study is restricted to workings of Assam Gramin Vikash Bank in various districts of Assam.
- The entire basic authentic data that is entered particularly collected from RBI Annual Report and RBI's statistics reports.

#### **1.7. RESEARCH METHODOLOGY:**

The paper is conducted in doctrinal methodology. However some of its parts are studied and completed empirically. Due to insufficient number of responses received during the pandemic situation, the researcher somehow failed in collecting the required number of responses. Thus, the dissertation paper is concluded doctrinally.

The materials and data are majorly collected from secondary sources. Moreover, the paper is based on available information gathered from secondary data and drained from Annual reports of NABARD and Assam Gramin Vikash Bank and from official websites of Reserve Bank of India and Assam Gramin Vikash Bank. The paper is also prepared from various books, newspaper, articles, journals, reports, websites, blog, academic literature and available authentic internet sources.

### **1.8. RESEARCH HYPOTHESIS:**

The particular paper gives the idea that the success of RRBs in Assam is merely dependent on the prosperity of Assam Gramin Vikash Bank. For achieving the required result it is necessary to gather insight of RRBs in India and to find out how these rural banks are running along predicting the future challenges that might arise because of the present condition. In addition to AGVB, Langpi Dehangi Rural Bank rural which was growing gradually somewhere in the hilly districts of Karbi Anglong revealed positive results in accordance with the AGVB. However due to its merging in AGVB more branches are opened in the State. Thus presently there is only one RRB in existence in Assam. It is therefore required that same amount of focus and attention needs to be given to uplift and enhance the “Langpi Dehangi Rural Bank” just like “Assam Gramin Vikash Bank”.

### **1.9. LITERATURE REVIEW:**

**“International Journal of Socio-Legal Analysis and Rural Development, Pre- Post Development conducted by Surbhi Agrawal”:** The paper enumerates the concept of rural development that was existence from the beginning. Most of the rural development took place after the Independence of India. In pre Independent era, though the concept was there, no vital steps were taken by the British in developing the poor conditions of the rural masses. However post Independence played positive role in bringing rural development and diverse changes were also brought by the Indian Government to overcome the poverty and helplessness of the rural poor.

**“TANNAN’S BANKER’S MANUAL (25TH EDITION)(VOLUME 1) by Rajesh Narain Gupta and Pratip Chauduri”** : The book is a complete collection covering Banking laws and Allied Acts of India. Most of the information relating to the RRBs and NABARD are extracted from material sources of the book. A detailed information on why the rural banks are established; how the NABARD is helping the co operatives and rural banks; various recommendations forwarded towards establishing RRBs in India; NABARD providing rural credit; regulation by RBI and NABARD in facilitating financial aid for the upliftment of RRBs and the like.

**“The Performance of Regional Rural Banks (RRBs) in India: Has Past anything to suggest for future? by Biswa Swarup Misra”**: The study has shown that RRBs have been established with the sole motive of forwarding banking facilities to the underprivileged regions and people. Moreover, the condition and performance of RRBs before amalgamations post amalgamations is also significant in improving the functioning of RRBs. The study has also witnessed certain positive impacts in present RRBs economy after amalgamations of RRBs.

**“Problems and Prospect of Regional Rural Banks in India by N. Sabitha Devi”**: The objective is to focus on difficulties and struggle of RRBs in the present scenario of India. RRBs never remained isolated from other banks and as such it is vital to take down notice of different obstacles that are coming in the ways of serving better services to the disadvantaged sections. The study focused on overdue, recovery, NPA and such other hurdles of RRBs; how to overcome and improve the workings of RRB smoothly.

**“MODERN BANKING IN INDIA, (1st ed.) by K.C. SHARMA”** : Materials from this book gives insight into the various agencies of RRBs towards rural development in India. The RRBs are formulated with many responsibilities like to provide finance to the poor sections, to identify their economic needs as well as to enhance banking facilities in backward areas and so on. For the achievement of all the above mentioned functions, the RRBs need to be assign the main role in order to develop the rural areas.



**“REGIONAL RURAL BANKS AND UPLIFTMENT OF RURAL SOCIETY (1<sup>ST</sup> ED.) by Meenu Agrawal”**: The book comprises of diverse chapters written by different authors. Most of the sources of this book are founded by distinct writers with a common goal to prove RRBs far better in enhancing the lives of low economic class. Various suggestions are also provided by these eminent authors to understand the depth concept of importance of RRBs in our daily life.

**“Challenges and Issues of Indian Rural Banking (2016) conducted by Dhanraj. N and Prof. Dr. R. Sai Kumar”**: The study conducted is emphasized on understanding the impact of rural banking in bringing economy to the nation. Hence, “banks and other financial institutions are considered to be vital for the rural development in India”. Moreover the study points out the existence of various pros and cons within RRBs.

**“Role of NABARD in Rural Infrastructure Development published by Dr. Anoop Kumar Singh, Dr. Anupam Vidyarthi”**: The study reveals how NABARD is one of the significant agencies behind the workings of RRB. The study aims to explain that various efforts that were made by NABARD to enhance and develop the rural infrastructure. Additional focus is also on the current scenario of rural infrastructure and the various efforts made by NABARD in achieving the desire objectives.

**“Performance Evaluation of Regional Rural Banks (RRBS) in India conducted by DR. Satish Kumar, Vibhor Goyal and MS Poonam Sharma”**: The objective of the paper is to ascertain the needs and agenda behind establishment of RRBs. RRBs were enacted to expand the banking and a financial facility in the rural areas and this is why RRBs are also merged to perform better and effortlessly in current situation.

**“Role of Assam Gramin Vikash Bank in Promoting Financial Inclusion in Assam by Bikash Paul”**: The paper is an analysis of the workings of “Assam Gramin Vikash Bank” in contributing financial needs to the excluded category of people in the State. AGVB is one of the leading RRB in Assam and thus the paper attempts to identify the

role of AGVB and various steps and initiatives taken by the Bank for “promoting financial inclusion in the rural areas of Assam”.

#### **1.10. MODE OF CITATION:**

The Bluebook 19th edition is adopted while making the dissertation paper.

#### **1.11. CHAPTERIZATION:**

The chapterization is given as under:

**Chapter I** deals with the introduction. It is inclusive of research methodology, research questions, aims and objectives, scope and limitation of the study and various other aspects in relation to the introduction of the topic.

**Chapter II** deals with origin and gradual development of RRBs in India. This chapter will briefly explain about the historical background of RRBs and performance and growth acquired by RRBs in India.

**Chapter III** deals with the reasons for setting up of RRB and various legal provisions supporting regional rural banks. This particular chapter reveals a dominating performance by various agencies in exercising functions of RRBs. Moreover, the chapter also briefly discusses the efficient role of the RRB agencies and how these agencies have come forward to assist RRBs in overcoming economic hardship due to Covid 19.

**Chapter IV** deals with the effect of changes made by amalgamations and recapitalisation of RRBs. It specially deals with the affects of bank mergers in the working of RRBs.

**Chapter V** deals with the beginning of RRBs in North-East region of India with respect to the state of Assam. This chapter elaborately deals with the inception of RRBs in Assam along with the gradual growth and development of RRBs before pre-merger and post merger in Assam.

**CHAPTER VI** describes major description of AGVB; how these banks are contributing growth and development in the entire state of Assam; their performance and profitability and various steps and measures that are adopted by AGVB in promoting rural economy to Assam.

**Chapter VII** deals with diverse issues and challenges faced by the RRBs in India with special attention to the state of Assam. In addition various achievements acquired by AGVB along dealing with various infrastructural, financial and various other constraints faced by the RRBs in Assam.

**Chapter VIII** deals with the conclusion. It includes analysis and recommendations in respect of the study on regional rural banks.

## CHAPTER-2

### EVOLUTION AND PROGRESS OF REGIONAL RURAL BANK

India as an agrarian country majority of people are dependent on farming and agriculture yet less importance was given in the beginning of 18th century towards crediting and improving the rural inhabitants of India. However the condition somehow changed with the passing of time. To understand better how rural development gradually took place in India; the concept of banking in India is of utmost importance and then comes the history behind the establishment of rural banks as one of the important pillar in rural development of the backward regions of India. Prior to formal banks, loans and usury were well prevalent in those days in the form of banking. It is worth mentioning that provisions of banking are found largely in Kautilya's Arthashastra, Gautama, Brihaspati and Budhayana.<sup>3</sup> In modern era, the GoI has implemented many action to improve the rural areas and one of them is by financing and crediting the backward and rural areas of India.

Sl. No.	Banking before Independent India		Banking after Independent India
1.	Zamindari system existed; no rights and privileges to peasants.	1.	Nationalisation of Reserve Bank of India on 1 January 1949 under RBI Act, 1948.
2.	Bank of Hindustan established in 1770 and ceased in 1832.	2.	In 1954-1966, failure of banks leading to amalgamations of banks.
3.	Rise of Swadeshi movement in 19th century established agricultural credit societies and urban co operatives.	3.	On 1 July 1955 nationalisation of Imperial Bank into State Bank of India.
4.	World war I resulting in majority of liquidation of banks whereas co operatives survived.	4.	Social control over banks in December 1967 through the Banking Laws (Amendment) Act 1968.
5.	Post world war I- Presidency banks of Madras, Bombay and	5.	In 1969 nationalisation of 14 commercial banks and six commercial

<sup>3</sup> M L TANNAN, TANNAN'S BANKING LAW, 21 (23rd ed., Lexis Nexis, 2010).

	Calcutta turned to Imperial Bank of India in 1921.		banks in 1980.
6.	Establishment of Central Bank on 1st April 1935 under the RBI Act, 1934.	6.	Establishment of Regional Rural Banks Act on February 9, 1976.

**Source:** Evolution of Banking by RBI.

## 2.1. BANKING BEFORE INDEPENDENT INDIA:

In pre-independence period when India was under the control of British regime, the conditions of poor peasants were not in a good position. Importance was mainly given towards collection of revenue and no aim was formulated towards developing the rural areas. Zamindari system was introduced to enhance collection of revenue and even the Zamindars being loyal towards the British did not formulated any policy to make the lives of the peasants any better instead it deteriorated the living conditions of the peasants. The Britishers exploited the peasants as much they can and never took any step towards developing the situation of rural people economically. One distinguishing feature is that the Britishers abolished the barter system which was once prevalent in India.<sup>4</sup>

Initiation of “occidental banks” - These banks started by the Agency houses is of vital consideration. Though at that period these banks were not compatible and failed to run in long terms that were clearly indicated by commercial disaster of 1829-32.<sup>5</sup> The genesis of “banking system in India” can be detected from the Bank of Hindustan established in the year 1770. It was established by the agency house of Alexander and Company. However, it ceased to operate in 1832. These occidental bankings were somewhere involved in financial transactions in addition to banking business which proved detrimental for them resulting into liquidation. The end result is that Agency Houses failed and many Banking Companies went into loss and expulsion.<sup>6</sup>

<sup>4</sup> Surbhi Agrawal , *Pre- Post Development*, Vol 2 Issue 1, IJSARD, 97-98 (2015).

<sup>5</sup> I RAJESH NARAIN GUPTA, TANNAN’S BANKER’S MANUAL, 12 (25th ed., Lexis Nexis, 2016).

<sup>6</sup> *Supra note 5*, at 12.

In *Govind v. Ram Nath*,<sup>7</sup> the CJ of Bombay High Court heavily criticized the “functioning of Agency Houses and ordered closure of speculative transactions which was recognized under Section 277(G) (1) of Indian Companies Act, 1913”. The outcome was that by separating the banking from other adventures gave smoothening functioning and stability to banking business.

## **2.2. RISE OF SWADESHI MOVEMENT**

In the 19th century, Swadeshi Movement played tremendous role towards motivating co operative credit movement resulting in establishment of a no. of “agricultural credit societies and few urban co operatives”. These rural sectors that remained isolated from banking services received advances in the form of “agricultural credit societies”. After the co operatives initiated to operate in India for the very first time, continuous efforts was paid to focus on developing and achieving the provisions of rural credit. Even a fresh Act took place in the year 1912 that granted the legal status to credit societies and the like. During this period other than co operatives and commercial banks, many other banks were also established.<sup>8</sup>

## **2.3. PHASE OF “WORLD WAR I”**

The stage of “World War I” brought destruction to the Indian economy. Most of the finances were forwarded towards financing the war which led to sole attention towards the urban places where mostly war activities took place and the agricultural and rural areas again faced total negligence giving arise to widening of urban-rural gap. As the rural people not got any help from the organised banks started to resorted aid from the moneylenders. As a result they imposed extortionate rates of interest in return. Moreover many banks stopped operating whereas some of these banks got itself merged trading functions with other banking functions. During this even big banks like the Specie Bank (British Bank) dissolved however the co-operative banks survived during this period because of the sole reason that these banks were built on mutual trust and effective control by its member owners.<sup>9</sup>

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<sup>7</sup> Govind v. Ramnath, 32 Bom LR 232.

<sup>8</sup> Reserve Bank of India, *Evolution of Banking in India*, RBI, 77, Sep 04, 2008.

<sup>9</sup> *Supra note 8*, at 77-78.

During Post World War I, the “Presidency banks of Madras, Bombay and Calcutta turned to Imperial Bank of India in 1921”. Moreover Imperial Banks also performed the function of Central Bank before the establishment of RBI in 1935. By the end of year 1930, a surplus in the no. of commercial banks along with a sharp hike in the co operative banks are found to seen immensely.<sup>10</sup>

#### **2.4. BEGINNING OF CENTRAL BANK OF INDIA**

After many banks ceased to function, many Committees were of the opinion that a strong pillar is needed to prevent further bank failures and thus recommended for the urgent need of a “Central Bank of India” shortly as CBI. As a result, RBI as the CBI was incorporated on “1st April 1935 under the Reserve Bank of India Act, 1934”. It was set up on the basis of the recommendations of the Hilton Young Commission The nationalisation of RBI took place on 1 January 1949 and it was based on RBI Act, 1948<sup>11</sup>. Dual reasons existed behind the foundation of RBI. One of the objectives is to tackle the issues of bank failures and to lend helping hand towards uplifting the priority sectors by crediting the requirements of agriculture to the rural population. Post establishment of RBI as the CBI, all the banking sectors came under the purview of RBI.

The RBI focused on advancing the rural economy apart from performing all other major functions. The RBI and cooperative Banks served the rural areas however their role was not effective. This resulted in dominance of the moneylenders once again. To end the sufferings, RBI financed the co operative banks in a way to serve the rural people in the form of agricultural credit. Thus, within a short lapse of time, primary agricultural credit societies formed at the base level, while district central co operative banks were placed at the intermediate level, and the state co operative banks at the apex level.<sup>12</sup>

#### **2.5. BANKING IN THE EARLY YEARS OF INDEPENDENT INDIA - 1947 TO 1967:**

##### **2.5.1. Failed Banking and Consolidation of Smaller Banks:**

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<sup>10</sup> *Supra note 8*, at 77-78.

<sup>11</sup> The Reserve Bank (Transfer to Public Ownership) Act, 1948, No. 62, Acts of Parliament 1948.

<sup>12</sup> *Supra note 8*, at 80.

After Independence, Indian banking was entirely in the private sector. Post Independence and partition of India from Pakistan resulted in bad economy, and it even affected the banking sector. The “Banking Companies Act of 1949”<sup>13</sup> conferred on RBI huge supervisory function to look after all the banks in the nation. The bank failures led the idea to amalgamate of banks in order to improve the banking institutions. Accordingly, during 1954-1966 amalgamations of banks took place and some even ceased to function or their liabilities and assets transferred to other banks.<sup>14</sup>

### **2.5.2. “Lending to Agriculture and Spread of Banking to Rural Areas”:**

After Independence, a rough calculation was made based on that there were no such “institutional banking institution” for the backward rural areas. Co-operatives though existed failed to enter the rural sector but were weak. Moreover sole “non institutional banking institution” was prevalent advancing credits to agriculture, small industries, small traders etc. Acc. to Bhaduri, 1977 report, Researchers observed that absence of banks in rural areas might lead the moneylenders/landlords to act as monopolists and charge exorbitantly high rates of interest to cultivators.<sup>15</sup>

Feeling the need and following the recommendation, The RBI expanded the institutional credit structure for agriculture and rural development. Moreover in order to understand and improve the financial situation prevailing in rural sector, the RBI commissioned the “All India Rural Credit Survey Committee” (AIRCS) in 1951.<sup>16</sup> In 1952, a committee called the Gorwala recommended the nationalisation of bank and renaming the “Imperial Bank of India” as “State Bank of India”.<sup>17</sup> The SBI was founded on 1 July 1955.<sup>18</sup>

### **2.5.3. Social Control of banks:**

The concept of social control of banking was initiated in Dec. 1967 through the “Banking Laws (Amendment) Act 1968”<sup>19</sup> which was settled on Feb. 1, 1969.<sup>20</sup> One of the core reasons behind the introduction of social control of banks is to grant credit and banking services to the priority sectors. However, it failed to establish its foundation due to

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<sup>13</sup> The Banking Regulation Act 1949, No. 10 Acts of Parliament, 1949.

<sup>14</sup> *Supra note 8*, at 84-88.

<sup>15</sup> *Id.* at 90-93.

<sup>16</sup> *Id.*

<sup>17</sup> *Id.*

<sup>18</sup> The State Bank of India Act, 1955, No. 23, Acts of Parliament, 1955.

<sup>19</sup> The Banking Laws (Amendment) Act, 1968, No. 58, Acts of Parliament, 1968.

<sup>20</sup> *Supra note 8*, at 96.



various loopholes being prevalent within the commercial banks and its members involved with it. This failure of “social control” gave rise to formation of “nationalisation of banks”.

#### **2.5.4. Nationalisation of Banks:**

Post failure of social control on banks, the Government announced “nationalisation of banks”. Subsequently, the GoI nationalised 14 banks with deposits of over Rs.50 cr. by promoting the “Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969”. The objective was to achieve the equal socio economic agenda thickening the gap between higher and lower class people. The most important objective was to penetrate banking services in the rural areas to uphold credits and loans to both priority and non priority sectors. Another chapter of nationalisation took place in the year 1980 where 6 commercial banks were nationalised.<sup>21</sup>

#### **2.5.5. Setting up of “Regional Rural Banks”:**

One of the core purposes of bank nationalisation was to introduce banks in underdeveloped regions of India with the aim to promote rural banking among the villagers. Accordingly numerous commercial and cooperative bank branches penetrated in rural areas where both failed to achieve the objectives of nationalisation. Reasons were commercial banks looked for the profit benefit and as such hesitated to open its branches in the rural areas whereas co operative banks lacked resources to fulfill the rural credit demand. This gave the requirement for a distinct banking structure which will be a blend of both features of “commercial and co operative banks” providing steadiness, wealth and a local rural bank.

The proposal to initiate rural banks was earliest recommended by the “Banking Commission (1972)”, action along these lines was initiated after the “Twenty Point Programme” or “New Economic Programme” of the GoI “ launched in the mid-1970s”. The “Regional Rural Banks Ordinance” was declared on Sep. 26, 1975, which was then reinstated by the “Regional Rural Banks Act” on Feb. 9, 1976.<sup>22</sup> “Regional Rural Banks (RRBs)” were build up with a perspective to expand the rural economy by allotting credit for the reason of development of agriculture, trade, commerce, industry and other

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<sup>21</sup> *Supra note 8*, at 96.

<sup>22</sup> The Regional Rural Bank Act, 1976, No. 21, Acts of Parliament, 1976.

facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs.<sup>23</sup>

RRBs initiated functioning after its enactment on 2nd of Oct, 1975 with the establishment of “Prathama Grameena Bank” as the first RRB in India. However, in the beginning only 5 RRBs were set up on 2nd Oct. 1975 at “Moradabad, Gorakhpur, Bhiwani, Jaipur and Malda”. Since the establishment of RRBs the objective to achieve “socio-economic financial inclusion in unbanked and undeveloped regions” has been found to be progressive in recent years.<sup>24</sup>

Sl.no.	“Name of the Bank”	“Sponsor Bank”	“State”	“Location of H.O”
1.	“Prathama Bank, Moradabad”	“Syndicate Bank”	“Uttar Pradesh”	“Moradabad districts”
2.	“Gorakhpur Kshetriya Gramin Bank Gorakhpur”	“State Bank of India”	“Uttar Pradesh”	“Gorakhpur and Deoria districts”
3.	“Haryana Kshetriya Gramin Bank Bhiwani”	“Punjab National Bank”	“Haryana”	“Bhiwani districts”
4.	“Jaipur- Nagpur Anchalik Gramin Bank Jaipur”	“United Commercial Bank”	“Rajasthan”	“Jaipur and Nagpur districts”
5.	“Gaur Gramin Bank Malda”	“United Commercial Bank”	“West Bengal”	“Malda west Dinajpur and Murshidabad districts”

**Source:** Modern Banking by K C Sharma.

According to quarterly 4 report of RBI, RRBs are spread over all the 6 regions of India. Out of the six regions, Southern region is seen to have more no. of RRBs spreading over 99 districts as compared to rest of India whereas western region with lowest no. of RRBs. In terms of credit and deposits also southern region tops the most. Moreover NPA recovery in Southern region marks a satisfactory and successful amongst all the regions

<sup>23</sup> *Supra note 8*, at 101.

<sup>24</sup> MEENU AGRAWAL ET AL, REGIONAL RURAL BANKS AND UPLIFTMENT OF RURAL SOCIETY, 25(1st ed., Deep & Deep Publications Pvt. Ltd 2010).

in the country. Although NE region is very much underdeveloped it still lacks behind in attributing a satisfactory outcome in terms of both credit and deposits.

Region	State/UTs	No. of Districts	No. of reporting offices	Deposit(in crore)	Credit (in crore)
<b>Central</b>	Chattisgarh	29	614	11332	3511
	Madhya Pradesh	52	1338	23219	12173
	Uttarakhand	13	287	5482	2437
	Uttar Pradesh	6	308	7683	4924
<b>Eastern</b>	Bihar	38	2110	36554	18928
	Jharkand	24	443	7588	3042
	Odisha	30	986	19636	8020
	West Bengal	7	301	7827	3335
<b>North Eastern</b>	Arunachal Pradesh	6	23	611	146
	Assam	31	477	11050	4009
	Manipur	4	21	283	145
	Meghalaya	7	85	2165	717
	Mizoram	10	85	3384	1512
	Nagaland	2	7	97	25
	Tripura	8	149	7191	2747
<b>Northern</b>	Haryana	22	654	16189	10152
	Himachal Pradesh	11	263	5800	2110
	Jammu & Kashmir	19	332	5182	2613
	Punjab	22	419	8860	6845
	Rajasthan	25	1172	21670	16929
<b>Southern</b>	Andhra Pradesh	13	1283	33941	31677
	Karnataka	30	1780	43562	32931
	Kerala	14	635	16458	17912
	Puducherry	2	39	763	643
	Tamil Nadu	30	631	12454	12287
	Telangana	10	283	6019	6571
<b>Western</b>	Gujarat	33	754	15318	9389
	Maharashtra	34	739	15673	8454

**Table 1.1.** “Showing the quarterly- 4; region wise, state wise distribution of districts, no. of reporting offices, deposit and credits of RRBs in 2019”.

**Source:** “Reserve Bank of India (Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks)”.

## **2.6. “Growth and Development of Regional Rural Banks”:**

In the beginning RRBs operating all over India showed a positive outcome. However with the passing period of years, defects started emerging in its working leading to poor performance of RRBs. Measures like recapitalisation and amalgamations of RRBs were strictly followed to overcome the defects within RRBs. In recent years, RRBs started to return to its stable form. The performance of RRBs reveals a healthy outcome. To analyze its improvement , 5 FY ( 2014-15, 2015-16, 2016-17, 2017-18, 2018-19) are compared together. Among 5 FY 2018-2019, clearly indicates that a surplus is witnessed in terms of reserves, deposits, investments and share capital. Increase in deposits and reserves means RRBs are developing each year. From the 5 F.Y. i.e. “2014-15, 2015-16, 2016-17, 2017-18, 2018-19”, following points are analyzed-

- i)The no. of RRBs decreased to 56 from 57 on 2014 and according to 2018, 56 RRBs were there however the no. further increased in 2019 and stood at 45.
- ii) A increase in branch networks is seen from 19, 082 cr. in 2014 to 21,747 cr. in 2018.
- iii) A good rise is observed in terms of reserve from 15,805 cr. to 25,185 cr. within 2014-2018.
- iv) Sum of deposits increased from 2,39,494 cr. in 2014 to 2,71,1329 cr. in 2015, to 3,13,499 cr. in 2016 to 3,71,910 cr. in 2017 to 4,00,459 cr. in 2018. This shows that the performance of RRBs in terms of growth is satisfactory as increase in deposit rate is assign of RRB viability.
- v) In terms of investments also, a positive growth is noticed whereas, as borrowings, deposits, investments increased, gross loans and advances by RRB has also surged accordingly.

Particulars	2014	2015	2016	2017	2018
“No. of RRBs”	“57”	“56”	“56”	“56”	“56”
“Branch Networks”	“19, 082”	“20, 059”	“20,920”	“21,422”	“21,747”
“Share Capital”	“197”	“197”	“6,387”	“6,401”	“6,436”
“Reserves”	“15, 805”	“18, 462”	“20,665”	“23,080”	“25,185”
“Deposits”	“2,39,494”	“2,71,1329”	“3,13,499”	“3,71,910”	“4,00,459”
“Borrowings”	“50,230”	“58,824”	“47,888”	“51,588”	“57,647”
“Investments”	“1,39,631”	“1,06,780”	“1,69,592”	“2,10,984”	“2,22,266”
“Gross Loans & Advances (outstanding)”	“1,59,406”	“1,06,780”	“2,06,538”	“2,26,175”	“2,53,978”

**Table 1.2. :** Performance indicators of RRBs in last 5 FY.

**Source:** Author’s work, data collected from NABARD Annual Report (sum in ₹ cr. )

The profits by RRBs in the last 5 F.Y. shows a up and down prospect. Where on 31 march 2014, all 57 RRBs earned a good sum of profits; it did not remained constant in the following F.Y. 2015, 2106, 2107 and 2018. On 31 March 2018, only 45 RRBs are found to be earning profits out of 56 RRBs. An amount of ₹ 2,506 crore are earned by 45 RRBs on 31 March of 2018 which is less as compared to last F.Y. and even F.Y. 2014. On 31 March 2014, not single RRBs suffered losses whereas on 31 March 2018, around 11 RRBs out of 56 RRBs involved in huge losses. In terms of comparison with other last F.Y. from 2014 to 2018, F.Y. 2014 earned net profit of around ₹ 2,694 crore, F.Y. 2015 ₹ 2,781 crore, F.Y. 2016 ₹ 2,018 crore, F.Y. 2017 ₹ 2,218 crore, and F.Y. 2018 the lowest of around ₹ 1,501 crore of net profit. It is estimated that profitability of RRBs on 31 March 2014 showed a good outcome whereas, RRBs on 31 March 2018, suffered more losses than earning profits.

Particulars	31 March 2014	31 March 2015	31 March 2016	31 March 2017	31 March 2018
“RRBs Earning Profit (No.)”	57	51	50	49	45
“Profit in ₹crore”	2,694	2,958	2,206	2,604	2,506
“RRBs incurring losses”	0	5	6	7	11
“Losses in ₹ crore”	0	177	188	387	1,005

<b>“Net Profit of RRBs ₹ crore”</b>	2,694	2,781	2,018	2,218	1,501
<b>“RRBs with Accumulated Losses (No.)”</b>	8	8	8	8	11

**Table 1.3. :** Profitability of RRBs in last 5 FY.

**Source:** Author’s work, data collected from NABARD Annual Report.

## CHAPTER -3

### LEGAL FRAMEWORK AND VARIOUS AGENCIES BEHIND ESTABLISHMENT OF REGIONAL RURAL BANK

“Regional Rural Banks” also referred by distinct names in different states, aforesaid as Grameena Banks, Gramin Banks, Grama Banks, Gramya Banks, Elaquia Dehati Banks, Gaonlia Banks, etc were instituted in 1975.<sup>25</sup> with the objective of advancing credit and financial assistance to the people residing in various underprivileged and backward areas of rural India. Larger part of Indian population depends on agriculture and farming. It is thus necessary to boost the rural economy to support the rural weaker sections. As a result GoI enacted the “Regional Rural Bank Act, 1976”. Another important reason for the establishment of RRBs in rural areas is to expand the banking facilities effectively. Prior to origin of RRBs, the then existing banks such as “co operative and commercial banks” issued agricultural credits to priority sectors. However these banks did not succeeded to cover underdeveloped regions in a positive manner. The cardinal desire behind implementing RRBs is to administer banking services to priority and weaker sections dominantly with less importance to non priority sectors. Moreover, objectives of RRBs are emphasized on opening up of employment opportunities to the rural educated yet unemployed youths. RRBs can approach for financial aid from the Reserve Banks in times of major needs.<sup>26</sup> The growth and development of RRBs is not a smooth and rigid one. It overcomes more ups and downs in order to survive and exist currently.

#### 3.1. FEATURES AND REASON BEHIND INSTITUTION OF RRBS:

1. To satisfy the capital outlay and financial requirements to priority sectors, farmers and socio economically powerless segments of society.
2. Particularly to serve the agrarian provinces within the rural regions far away from the urban areas to focus attentively to the helpless farmers and distressed agriculturists.
3. To allow RRBs to participate in raising the economy of India.<sup>27</sup>

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<sup>25</sup> *Supra note* 24, at 44.

<sup>26</sup> *Id.*, at 38.

<sup>27</sup> *Id.* at 37.

4. To incur the sufferings and poverty of the underprivileged rural mass by allotting them the rural credit through RRBs and its various branches in rural parts extensively.
5. Shortcoming of interruptions in the outflow of institutional wealth to uplift and aid marginal farmers, agricultural and rural sectors.
6. Though these RRBs work independently; RRBs are not allowed to take decision autonomously and will be constantly under the supervision of NABARD and financially supported by the RBI.
7. RRBs contain the mentioned feature of both co operatives and commercial banks, lending process of co operative banks and business model of commercial banks. As a whole the main agenda behind foundation of RRBs is to perform all banking services excluding the commercial functions. Thus, RRBs to serve solely as “poor man’s bank”.
8. RRBs are funded by GoI, Govt. of concerned state and by concerned Sponsor bank. Sponsor bank provides financial and managerial assistance to RRBs and other concessions such as low rate of interest if it is borrowed from the Sponsored banks itself.<sup>28</sup>
9. To reduce poverty and as service not profit making business.
10. To build an equal socio economic distribution of wealth and resources between the rich and the poor.

### **3.2. REPORTS AND RECOMMENDATIONS OF DISTINCT COMMITTEES:**

The major agenda behind establishment of RRBs is granting access of banking amenities to poor farmers as well as weaker rural sections. As such the RRB Act 1976 was formulated to give financial access to the unbanked areas of India. Whereas these banks though provides convenient investment banking assistance to the rural regions it’s been gathered by various problems leading to instability and weak in times. Thus, the GoI and RBI has taken frequent actions like forming various Committees to keep the track of working and progress of RRBs in a more efficient and possible manner.

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<sup>28</sup> *Supra note 24, at 37.*



### **3.1.1. “Working Groups on Rural Banks, 1975 (Narasimham Committee)”**

The main role played by this group is that they recommended for the establishment of RRBs. The GoI on the basis of a report submitted by the Narasimham Committee established RRBs. The Committee expressed that RRBs will provide a great benefit in uplifting rural sections leading to rural development and rural economy of the nation. Moreover, the Committee suggested that a definite sort of relaxation be allowed in operations with immunity within existing banking laws and regulations. Accordingly, the RRBs were allowed to relish exemptions in the initial period by RBI. Though the RRBs granted the privilege to enjoy but in the later period, in the wake of financial sector reforms are also being exposed to same regulatory norms as commercial banks.<sup>29</sup>

### **3.2.2. “M.L. Dantwala Committee, 1977”**

“The Dantwala Committee” was selected by the RBI in 1977 to look after the needs of RRBs. They submitted its viewpoint that RRBs can cater growth and development financially as well as if the Rural Banks are properly guided it can bring huge economy to the nation. The Committee forwarded suggestions of expanding the areas of RRBs not only to a specified rural area instead these banks should be allowed to work on mass areas and should cover jurisdiction of one district with a population of 10 to 20 lakhs. Addition to this, the Committee suggested that a particular institution need to be build up by the Spons. bank to give training facilities for the requirement of RRBs.<sup>30</sup>

### **3.2.3. “CRAFICARD”**

The “Committee to Review the arrangements for Institutional Credit for agriculture and rural Development” also referred to as “CRAFICARD” which was formed by RBI to look after the workings of RRBs in the underdeveloped areas. The Committee recommended that whatever losses are faced by a RRB, it is necessary to retain or make over the losses annually by the shareholders in the same proportion of their shareholdings. Moreover, it was recommended to extend the RRB branches and giving license to recognize these rural banks to operate their functions. The Committee suggested that RRBs must cover large portion of backward areas and all the unbanked

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<sup>29</sup> Anonymous, *Genesis and growth of regional Rural Banking System in India*, Shodhganga@INFLIBNET (Jun,6,2020, 11:35 PM), [https://shodhganga.inflibnet.ac.in/bitstream/10603/92857/10/10\\_chapter%202.pdf](https://shodhganga.inflibnet.ac.in/bitstream/10603/92857/10/10_chapter%202.pdf).

<sup>30</sup> *Supra note 29*.

and underdeveloped localities within North Eastern region and to be granted credits by the RRBs.<sup>31</sup>

#### **3.2.4. “Kelker Committee, 1984”**

The Committee was formed with the sole objective to analysis the various workings and functioning of RRBs in India. Another responsibility was to find out diverse means by which the functioning of the RRBs can be traced and to enhance the effectiveness of organizational structure of regional rural banks by adopting defined and proper practice. Suggestion was forwarded to merge small and less economic RRBs to increase the growth of economy. They also suggested that debt faced by the RRBs need to be filled by the shareholders in the pattern of allocation to RRBs in equal portion of their holdings.<sup>32</sup>

#### **3.2.5. “Agricultural Credit Review Committee, 1989”**

Khusro Committee also recognised as “Agricultural Review Committee” was established in the year 1989. It was created under the “Chairmanship of Dr. A.M. Khusro”. The Committee was composed to find the prevalent deficiencies within the RRBs. It found that some certain major problems such as loss, lack of profits, poor NPAs and many other obstacles like corrupted employees, dispute relating to management and staff etc. surrounded the functioning and workings of RRBs resulting in creating hindrance in growth and development of RRBs. Accordingly, the Committee put forwarded its suggestion to merge RRBs with sponsor Banks in order to function successively.<sup>33</sup>

#### **3.2.6. “Committee on financial system ( Narasimham Committee), 1991”**

The Committee suggested that in order to achieve highest success in terms of rural finance and economy it is necessary that the operations or working field of RRBs need to be permitted to broaden up its aspects and should provide the opportunity to indulged these banks in all types of banking business.<sup>34</sup>

#### **3.2.7. “Working Group on Funds Management in RRBs ( Misra Committee) , 1995”**

“Misra Committee” put their recommendations that if beyond the present growth and development of RRBs, more reformation and success is required in RRBs then it is

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<sup>31</sup> *Supra note 29.*

<sup>32</sup> *Id.*

<sup>33</sup> *Id.*

<sup>34</sup> *Id.*

necessary that a proper mechanism needs to be set up effectively supporting the Regional Rural Banks under which these banks will deposit their remaining, excess or unused funds either with NABARD or a special agency which would deploy them on behalf of the RRBs.<sup>35</sup>

### **3.2.8. “Committee on Restructuring of RRBs, 1994 (Bhandari Committee)”**

“Bhandari committee” focused on restructuring RRBs and as such 49 RRBs were considered for restructuring. The Committee emphasized on submitting managerial authority in the hands of BODs of RRBs. Recommendations to involve the “Sponsor Banks extensively in appointing Chairman and General Manager of RRBs”.<sup>36</sup>

### **3.2.9. “Committee on Remodeling Of Regional Rural Banks, 1996 (Basu Committee)”**

They advised the presentation of cost-effective model for RRBs with reasonable alteration to develop ways to select the Chairman of RRBs. The Committee said that a few RRBs won’t be able to withstand the “Stand Alone” access or extra updating action. In such situation ultimate solution was liquidation of such regional rural banks.<sup>37</sup>

### **3.2.10. “Expert Group on RRBs 1997 (Thingalaya Committee)”**

“Thingalaya Committee” expressed that powerless RRBs required to be treated in different manner and if it does not work in that way then winding up of RRBs is suggested. Another solution is to combine the weak RRBs with the neighbouring RRBs. They also recommended that full sovereignty should be given to the Sponsor Bank to take judgment on total affairs which are related to “business without having been referred to higher authorities”.<sup>38</sup>

### **3.2.11. “Committee on Banking Sector Reforms , 1998 (Narasimham Committee)”**

The “Narasimham Committee” in their recommendation mentioned that “all regulatory and supervisory functions relating to rural credit institution should be conferred in the hands of Board of Directors”. Various reasonable means are required to resolve the RRBs

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<sup>35</sup> *Supra note 29.*

<sup>36</sup> *Id.*

<sup>37</sup> *Id.*

<sup>38</sup> *Id.*

issues and focusing more efficiency, effectiveness and yield without hampering the goals of rural development.<sup>39</sup>

### **3.2.12. “Expert Committee on Rural Credit, 2001 (Vyas committee I)”**

The suggestion forwarded by the Committee is that defaulting shares of the State Government should be allowed to take over by other party who is eager to buy at a reasonable amount. This party could be “Spons. Banks, NBFCs or even the RRBs members”.<sup>40</sup>

### **3.2.13. “Estimates Committee, 2000-2001”**

This Committee in their endorsement provided the following - to reduce the no. of State nominees in RRB's from 2 to 1 and to increase the number of Spons. Bank's nominee directors from 2 to 3. Moreover “the term of non official directors not to be exceed beyond four years in normal circumstances”.<sup>41</sup>

### **3.2.14. “Advisory Committee on Flow of Credit Agriculture and Related Activities, 2004 (Vyas Committee II)”**

The Committee regarded the necessity of dual divergent models and advocated that these two models should be approve to apply- one in a zonal bank for those RRBs located in the NE region and another in those rural banks which are placed at state level. The Committees recommended to merging all the RRBs which are sponsored by Spons. banks in a state into a single unit in the state as well as to set up state-wise unification of RRBs and formation of state level rural banks. Moreover, the restructured RRBs are empowered to seek cheaper funds through issues Certificates of Deposits. Income-tax exemption granted to RRBs to be allowed to the newly constituted RRBs.

It can be said that many Committees came to existence during the last three decades. Different Committees that were formed suggested many ideas and models restructuring RRBs, however lack of time in implementing and analysing the recommendations of the Committees yielded unsatisfactory result and thus other committees immediately comes out with new recommendations to take the place.<sup>42</sup>

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<sup>39</sup> *Supra note 29.*

<sup>40</sup> *Id.*

<sup>41</sup> *Id.*

<sup>42</sup> *Id.*

### 3.3. OBJECTIVES OF RRBS:

The aims and objective of RRBS are mentioned in the Preamble of RRB Act, 1976 itself. It is an Act which was enacted with the objective of providing “incorporation, regulation and winding up of RRBS” with the sole aim to-

<b>IMPORTANT OBJECTIVES OF RRBS</b>	
1)	To enhance rural economy contributing towards country’s economy
2)	To develop rural economy in rural regions and to aid credits and finance to the- a) Agricultural, trade , commerce, industry and other productive activities b)financial assistance particularly to the small and helpless farmers, agricultural labourers, artisans and small entrepreneurs and other disadvantaged people connected with it.
<b>Some other objectives</b>	
3)	To provide credit and banking services in rural and semi-urban areas
4)	To fulfill and achieve various government schemes such as MGNREGA, pension schemes, Kisan Credit Scheme etc.
5)	To promote awareness among the rural groups regarding the bank and its beneficiaries
6)	To cut off higher rate of interest and thus to reduce cost of credit by charging lower interest rate

**Source:** Tannans Banker’s Manual (25th Ed.)

### 3.4. ESTABLISHMENT AND INCORPORATION OF RRBS:

The Regional Rural Banks also denoted as “RRBS” means those banks which are set up u/sub-sec. (1) of S. 3 of the Act. Before the coming of RRB Act 1976, an ordinance for RRBS was passed by the President of India on 26 Sept., 1975. Subsequently, the ordinance was taken over by the “Regional Rural Bank Act, 1976 on 9th February, 1976”.<sup>43</sup>

S.3 of the RRB Act mentions provisions for the establishment and incorporation of RRBS-

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<sup>43</sup> *Supra note 5*, at 78.

- a) It provides that one or more RRBs can be established in a State or UT if such request is made by the Spons. Bank to Central Govt. do so. Thus the Central Govt. has power to establish one or more RRBS by notifying through a notice in the Official Gazette.<sup>44</sup>
- b) The RRB shall be a body corporate, having a common seal, have all the powers to acquire, hold or dispose of property, to enter into contract and can be sue or sued in its name.<sup>45</sup>
- c) The Sponsor Banks financing and helping the RRBs.<sup>46</sup>

### **3.5. SPONSORSHIP:**

RRBs are sponsored by a “scheduled Commercial Bank ( by a public sector bank)”. For establishment of any RRB it is the Sponsor Bank who proposes to set up the same. RRBs are set up by the Sponsor Banks in consultation of concerned State Government and the Central Government of India and also requires the license from the RBI. It is the Sponsor Bank who assist the Regional Banks by subscribing to the share capital of RRB, recruitment and training of the personnel during the first five years of the functioning of the RRB and moreover providing managerial and financial assistance as may be mutually agreed upon between the Sponsor Bank and the RRB.<sup>47</sup>

### **3.6. CAPITAL OF REGIONAL RURAL BANKS:**

Sec. 5 of the Act provides that the total credit of RRB shall be two thousand cr. of rupees which is divide into two hundred crore of fully paid-up shares of ten rupees each. Whereas, Sec. 6 of the Act provided that in the first instance the credit to each RRB will be issued as per the Central Govt. desire or fixes however the capital issued “shall not be less than one crore of rupees”.<sup>48</sup>

The RRBs equity is held by the “Central Govt., concerned State Govt. and the Spons. bank in the ratio of 50: 15:35” .In cases where the RRB gets its capital from other

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<sup>44</sup> *Supra note 5*, at 78.

<sup>45</sup> *Supra note 5*, at 79.

<sup>46</sup> *Id.*

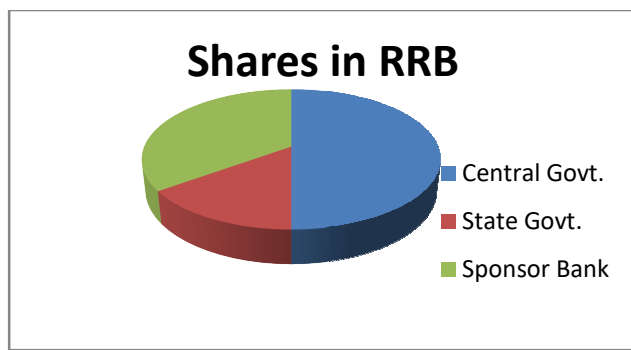
<sup>47</sup> *Supra note 29*.

<sup>48</sup> *Supra note 5*, at 79.

sources apart from Central Govt., State Govt. or Spons. Bank, the share of the GoI and the Spons. bank in the RRB “shall not be less than fifty-one percent”.<sup>49</sup>

If shareholding capital of Union, State and Sponsor bank in the RRB is either to raise or reduce then it can do so by the Central Govt. in negotiation with the spons. bank and the state govt.<sup>50</sup>

The capital which is supplied to the RRB can be increased by the BODs after discussing and negotiating with the NABARD also referred to as national bank along with the particular State Govt. and Spons. bank requiring the previous consent of the Union Govt. Thus whatever surplus amount is supplied to the RRBs it is mandatory to be in the same proportion as 50:15:35 of Union, State and Spons. bank.<sup>51</sup>



### 3.7. MANAGEMENT STRUCTURE:

As per provisions of Sec. 8 of the Act, regarding the function and workings of RRB, the general supervisory function, direction for the workings of RRBs and managing the affairs and business shall be performed by the BODs. The BODs may practice all such powers and discharging whole functions as the Regional Rural Bank can do so. While performing its duties and functions of RRBs it is mentioned that it is mandatory for the Board to rely on business ethics and to consider interest of the public.<sup>52</sup>

Composition of BODs in RRB:

- a) “not more than two directors are to be appointed by Central govt”.

<sup>49</sup> *Supra note 5*, at 79.

<sup>50</sup> *Id.*

<sup>51</sup> *Id.*

<sup>52</sup> *Id.*

b)	“To give representation to the people from the operational area of the Rural Bank only non official directors are to be nominated by the Central govt”.
c)	“Non officials directors should gave experience in agriculture and small scale activities of rural artisans”.
d)	“Not more than two directors to be nominated by the concerned Sponsor Bank”
e)	“Not more than two directors to be nominated by the respective State government”
f)	“One director each will be nominated by NABARD and RBI”
g)	“The Central Govt. may increase the total no. of directors upto an aggregate of fifteen”
h)	“The Chairman of the RRB shall be appointed by the sponsor bank in consultation with NABARD where he is an officer of the sponsor bank and with prior approval of the Central Govt. where he is not an officer of the sponsor bank”

**Source:** Modern banking In India by KC Sharma.

### **3.8. BANKING BUSINESS OF REGIONAL RURAL BANK:**

RRBs are required to function as a banking business and to take up only those businesses which are strictly mentioned under cl. 1 of S. 18 of RRB Act. As per RRB Act, RRBs shall involve in all such banking business which is mentioned under S. 5 Cl. (b) of “Banking Regulation Act, 1949”. In addition, the Banking Regulation Act 1949 also provides that the RRBs may engage themselves in one or more than one forms of business which is described under S. 6 cl. 1.<sup>53</sup>

Following type of businesses is to be undertaken by RRBs as per S. 18 of RRB Act. This includes “granting of loans and advances, particularly to small and marginal framers and agricultural labourers, whether individually or in groups, and to co operative societies, including agricultural marketing societies, agricultural processing societies, co-operatives farming societies, primary agricultural credits societies or farmer’s service societies for agricultural purposes of agricultural operations or for other purposes connected therewith”.<sup>54</sup>

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<sup>53</sup> *Supra note 5*, at 80.

<sup>54</sup> *Id.*



### 3.9. CHANGES AFTER REGIONAL RURAL BANK (AMENDMENT) ACT, 2015:

The RRB (Amendment) Act, 2015<sup>55</sup>, was declared by GoI on 12 May 2015. The amended Act was brought by the govt. to upgrade sanctioned and distributed capital of RRBs, bolster their investment base and prompting towards affability in the shareholding between union govt., state govt. and spons. bank.<sup>56</sup>

The modification was enacted to hike the accredited capital of RRBs to 2,000 cr. and thus the amended RRB Act has allowed all the RRBs to raise capital from sources other than existing stakeholders. The other sources may include accessing the capital market or private placement.<sup>57</sup>

Though the RRBs were enacted to reduce poverty and solving the various rural and semi-rural banking crises it failed to collect enough finance after subsequent years for its proper functioning.

The RRB Act contained many loopholes that was necessary to be addressed to solve the prevailing issues in RRB. Thus taking into considerations, the RRB Act was modified in 2015. Under the amended RRB(Amendment) Act 2015, RRBs can boost financing from original suppliers other than Central and State govt. or their spons. banks. The amended Act brought many important changes in the provisions of the Act.

The RRB (Amendment) Act, 2015 acquired the accord of the President on 12/5/2015. The objective of the Amended Act is to insert fundamental provisions and to alter the provisions of RRB Act, 1976.<sup>58</sup> The mentioned below are those provisions which are added and altered by the RRB (Amendment) Act, 2015.

a)	<b>Sec. 5</b>	“five crores of rupees, divided into five lakhs of fully paid-up shares of one hundred rupees each” with “two thousand crore of rupees, divided into two hundred crore of fully paid-up shares of ten rupees each”
b)	<b>Sec. 5</b>	“twenty-five lakhs of rupees, and the shares shall be, in all cases, fully paid-up shares of one hundred rupees each” with “one crore of rupees,

<sup>55</sup> The Regional Rural Banks (Amendment) Act, 2015, No. 18 Acts of Parliament, 2015.

<sup>56</sup> Dheeraj Tiwari., *Merger of regional rural banks within same state likely*, The EC, Feb 27, 2019.

<sup>57</sup> NABARD, Annual Report 2015-2016.

<sup>58</sup> Editor, *Regional Rural Banks Amendment Act 2015*, SCC online (24 July, 2020, 2:00 AM) <https://www.scconline.com/blog/post/2015/05/21/regional-rural-banks-amendment-act-20151/>.

		and the shares shall be, in all cases, fully paid-up shares of ten rupees each”
c)	<b>Sec.6</b>	“twenty-five lakhs of rupees or exceed one crore of rupees” with “one crore of rupees”
d)	<b>Inserted after S. 6(2)</b>	<p>“If RRB raises its capital from sources other than the Central Government or the State Government or the Sponsor Bank, the shareholding of the Central Government and the Sponsor Bank shall not be less than fifty-one per cent.”</p> <p>“ The Central Government shall consult the concerned State Government if the level of shareholding in the Regional Rural Bank of such State Government is reduced below fifteen per cent”</p>
e)	<b>Sec. 6(2)</b>	“Insertion of sub-section 2(A) after Sec. 6(2)”
f)	<b>Added proviso to s. 9(a)</b>	“no person shall be nominated as a director, if he is already a director on the Board of any other Regional Rural Bank”
g)	<b>Inserted S. 9(f)</b>	“to select directors for election of the directors other than the directors nominated by the Central Govt., the State Govt., the Sponsor Bank and other institutions owned or controlled by the Central Government or the State Government”.
h)	<b>Added S. 9(3)</b>	“appointment of an officer on the Board of Regional Rural Banks by the Central Government for effective functioning of the Regional Rural Banks”.
i)	<b>Substitutes S.10</b>	“a director nominated under Section 9 (1); (a) shall hold office during the pleasure of the Central Government and for such term, not exceeding three years, from the date on which he assumes his office, as the Central Government may specify at the time of his nomination and shall be eligible for renomination”.

**Source:** SCC online, RRB Amendment Act, 2015.

The RRBs are enacted with a positive agenda to improve the economic condition of the poor mass residing in underdeveloped regions by facilitating banking services and as such divergent roles are found to be played by various agencies that takes part in controlling, managing, supervising, regulating financing and functioning of the RRBs.

These agencies include Sponsor Bank, Central Government, State Government, RBI, and most importantly role of NABARD in supervising and refinancing RRBs.

### **3.10. AGENCIES OF “REGIONAL RURAL BANKS”:**

#### **3.10.1. Central Government:**

The RRB was formed with equal shares held by the Central Govt., concerned State Govt. and the Spons. Bank in the scale of 50:15:35.<sup>59</sup> Moreover, the Central Govt. has been given the authority in incorporation of RRB and as such on the request of Sponsor bank, the Central Govt. can establish one or more RRBs prescribing its local jurisdictions. When it comes to appointment it is the Central Govt. who takes part both in appointing permanent and temporary chairman, removal, disqualification and terminating the Chairman of RRBs.<sup>60</sup>

#### **3.10.2. Means endorsed by Central Government to tackle the effects of COVID-19 in RRBs:**

Due to the pestilence, RRBs are affected more adversely and thus Union Govt. is helping the RRBs during the Covid-19 pandemics. They announced a sum of around ₹ 1,340 cr. as recapitalisation to the RRBs in order to achieve the required capital for the following F.Y. Recapitalisation are provided to those RRBs that cannot maintain the required CRAR mentioned by RBI. Financially stronger and robust RRBs with improved CRAR will enable them to meet the credit requirement in the rural areas. In a pandemic situation the central govt. already predicted beforehand that RRBs would be duntrodden because of the ongoing pandemic situation and thus this step is taken to improve the CRAR, ensuring the flow of “credits to farmers, small scale industries, rural artisans and entrepreneurs hit by the coronavirus outbreak”.<sup>61</sup>

“The Cabinet Committee on Economic Affairs (CCEA)” after witnessing the worst scenario of Covid-19 decided to bring a change in the recapitalisation procedure of RRBs. Earlier recapitalisation for RRBs was to be ended by 2019-2020. However, in

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<sup>59</sup> *Supra note 5*, at 79.

<sup>60</sup> Dr. JITENDRA KUMAR RAM, REGIONAL RURAL BANKS OF INDIA-EVOLUTION, PERFORMANCE AND MANAGEMENT, 47 (1st ed., Partridge Publishing India, 2015).

<sup>61</sup> Capital Market, *CCEA approves recapitalization of Regional Rural Banks*, BS, Mar 25, 2020, 04:04pm.

2020 when pandemic occurred some defined changes are required to deal with the bad condition. The CCEA thus allowed carrying on with the exercise of recapitalization of RRBs by providing minimum regulatory capital to RRBs for another year beyond 2019-20, that is, up to 2020-21 for those RRBs which are unable to maintain minimum CRAR of 9%, as per the regulatory norms prescribed by the RBI.<sup>62</sup>

The CCEA further accepted that out of ₹ 1,340 cr. a sum of ₹ 670 crore is to be discharged by Central Govt. for fulfilling the purpose of recapitalisation of RRBs. However the sum by Union govt. is to be allowed solely on fulfilling the condition that it is the Sponsor bank that in the first hand needs to hand out the equitable sum for recapitalisation of RRBs.<sup>63</sup>

**3.10.3. State Government:** RRBs are incorporated with the sole motive to surge, improve and conserve the banking interests of the rural mass. Thus, the State govt. performs a leading job in protecting and implementing assistance to the rural banks to achieve their fundamental goals. Besides providing assistance to the concerned RRBs, the State Govt. adds 15% to the capital source of RRBs along with the Central Govt.(50%) and the Spons. bank (35%). However, in case if the level of shareholding of State Govt. in the particular RRBs lessens below 15% then the Central Govt. is required to consult the State Govt. in such situation.<sup>64</sup>

**3.10.4. Sponsor Bank:** The Sponsor Bank has undertaken the responsibility to assist the RRB by subscribing share capital of RRBs. This includes holding 35% shareholding in each RRB in addition with the Central and State Government.<sup>65</sup>

Major role includes enrollment of staff and employees of the RRBs and participates in providing guidance and training to these members during the functioning of the first five years of the RRBs. Moreover the Sponsor Bank looks after the managerial functions of RRBs and lends monetary hand to RRBs. In addition of the mentioned functions, the Sponsor Bank has the duty to monitor on the workings of the RRBs from time to time

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<sup>62</sup> *Supra note 61.*

<sup>63</sup> *Id.*

<sup>64</sup> *Supra note 5, at 79.*

<sup>65</sup> *Id.*

and carrying “out inspection, internal audit and inspection and suggest corrective measures to be taken by the RRBs”.

**3.10.5. Reserve Bank of India:** RRBs are “Indian Scheduled Commercial Banks” and these banks are managed by the “Reserve Bank of India” and supervised by the “National Bank for Agriculture and rural Development (NABARD)”.<sup>66</sup>Currently in the year 2020, there are 45 RRBs which are in existence all over the states of India except Goa and Sikkim.

**A) Present situation:**

**i) RBI to allow RRB to act as “merchant acquiring banks”:** From 6<sup>th</sup> of February, 2020, it is confirmed that RBI will allow RRBs to perform as “merchant acquiring banks using Aadhaar pay- BHIM app and POS terminals”. Similar to commercl. banks, a digital banking facility is also granted to be initiated by the RRBs with the purpose of providing a friendly, useful, cost effective to the customers to connect with their respective RRBs. It is indeed mandatory for the RRBs exploring to deploy POS will have to possess a sum of Rs 100 cr. after deductions or higher as on Mar. 31 of the previous F.Y. and to have minimum CRAR at 9% and NET NPA below 5%.<sup>67</sup>

**ii) Extension of moratorium on loans by RBI due to prevailing COVID- 19 situation:** Observing the ongoing COVID-19 globally India’s economy the RBI has taken a decision and implemented that entire existing commercial banks and all RRBs along with all IFI, and NBFC in addition to HFC and microfinance institutions are “permitted a moratorium of three months on payment of installments in respect of all term loans outstanding as on March 1”. Moreover, the RBI announced to extend the moratorium period for the repayment of loans by another three months till the month of August.<sup>68</sup>

**iii) Refinance of 50,000 crore by RBI:** For the ongoing covid-19 situation, RBI has contributed special refinance facilities for a entire sum of ₹ 50,000 cr. to the NABARD, SIDBI and to NHB to facilitate them to reach “sectoral credit needs”. The budget so

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<sup>66</sup> *Supra note 5*, at 78.

<sup>67</sup> ETBFSI, *RBI allows RRBs to deploy POS terminals*, EIBFSI, Feb 08, 2020.

<sup>68</sup> PTI, *More Relief For Borrowers As RBI Extends Moratorium on Loans Till August*, NDTV, May 22, 2020, 03:32 pm.

apportioned will compose of: (i) ₹ 25,000 cr. granted to NABARD for refinancing RRBs, cooperative banks and MFIs; (ii) ₹15,000 cr. to SIDBI; and (iii) ₹10,000 cr. to NHB. “Advances under this facility are to be charged at RBI’s extant policy repo rate at the time of availing these facilities”.<sup>69</sup>

**3.10.6. NABARD:** The “National Bank for Agricultural and Rural Development” (NABARD) was established as the Apex bank of India on 12.7.1982 under the “National Bank for agriculture and Rural Development Act, 1981”<sup>70</sup> to look after all the rural credits and needs; to supervise over the operations of inferior co-operative and RRBs running in the country. It is formed as a decision of the consolidation taking place between the “Agricultural Credit Department and Rural Planning and Credit Cell of Reserve Bank of India and the entire undertaking of Agricultural Refinance and Development Corporation (ARDC)”.<sup>71</sup>

The Government of India has declared that all the matters related to RRBs functioning, workings, activities, interpretations relating to circulars issued by the GoI is to be referred to NABARD instead of GoI.<sup>72</sup>

A. Statement showing Authority of NABARD as per provisions of RRB Act, 1956:

Sl. No.	Sec.	Provisions
1.	4(1)	“Mandatory for RRB to consult Govt. of India, Sponsor bank and NABARD before setting up its head office”
2.	5	“Increase or decrease of authorised capital of RRB to be done by GoI in consultation with NABARD”
3.	6(3)	“ Increase or decrease of subscribed capital of RRB to be done by GoI in consultation with NABARD”

<sup>69</sup> King Stubb & Kasiva, *Measures Deployed by the RBI to tackle the COVID-19 Pandemic*, Lexology, May, 2020, <https://www.lexology.com/library/detail.aspx?g=dcb002df-9a93-4b2a-ba09-939d79e71639>.

<sup>70</sup> The National Bank for Agriculture and Rural Development Act, 1981, No. 61, Acts of Parliament, 1981.

<sup>71</sup> *Supra note 5*, at 136.

<sup>72</sup> K.C. SHARMA, MODERN BANKING IN INDIA, 116 (1st ed., Deep & Deep Publications Pvt. Ltd, 2007).

4.	9(1)(i)	“In composition of BODs of RRBs, NABARD nominates its officials in RRB Board”
5.	11	“Sponsor bank shall appoint/terminate Chairman of RRB in consultation of NABARD”
6.	23A	“Central govt. may after consultation with NABARD amalgamate two or more no. of RRBs to form a single unit”
7.	29	“GoI in consultation with NABARD by notification makes Rules”
8.	30	“Board of RRB in consultation with NABARD/Sponsor Bank/GoI makes Regulations”

**Source:** Modern Banking In India by KC Sharma

B. Statement showing provisions related to RRB as per NABARD Act, 1981:

Sl. No.	Sec.	Provisions
1.	21(1)	“Provision of short term credit to RRBs”
2.	22	“Conversion facilities to RRB”
3.	23	“Rescheduling of loans to RRBs”
4.	24	“Provision of Investment credit-medium term”
5.	25	“Provision of long term credit”
6.	30A	“Rediscounting of bills of exchange and promissory notes presented by RRB”
7.	38(i)	“The National Bank shall coordinate its operations and the operations of various institutions engaged in the field of rural credit and maintain expert staff to study all problems relating to agriculture and rural development and be available for consultation to the Central Govt., the Central Bank, institutions engaged in the field of rural development”.

**Source:** Modern Banking In India by KC Sharma

**A) Current scenario of NABARD in tackling economic issues of RRBs.**

Due to pandemic situation, Specialized lending institutions such as NABARD, NHB and SIDBI difficulty in raising money from the market. These institutions play an important role in meeting the long-term funding requirements of “agriculture and the rural sector, small industries, housing finance companies, NBFCs and MFIs”.

The GoI has decided to provide “special refinance facilities for a total amount of ₹ 50,000 cr. to NABARD, SIDBI and NHB” so that continuous flow of credits is provided to satisfy the financial necessity.<sup>73</sup>

From the overall ₹ 50,000 cr., sum of ₹25,000 cr. is to handover to NABARD for refinancing RRBs and other cooperative banks and MFIs. Advances of ₹ 15,000 cr. to SIDBI and ₹10,000 cr. NHB for assisting HFCs by RBI. Advances under this facility will be charged at the RBI’s policy repo rate at the time of availing it.<sup>74</sup>

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<sup>73</sup> Gayatri Nayak, *Specialised financial institutions like SIDBI, NABARD provided Rs 50,000 crore liquidity*, ET, Apr 17, 2020.

<sup>74</sup> *Id.*



## **CHAPTER-4**

### **RECAPITALISATION AND MERGERS OF REGIONAL RURAL BANKS**

The mere purpose behind the establishment of RRBs is to aid and assist the backward people from poor rural background to overcome the differences and difficulties faced in acquiring basic banking services. In the early banking, most of these rural background people were denied from accessing credits and services from the banks. In 1969 when the nationalisation of 14 commercial banks took place more emphasized was put on improving the socio economic conditions, better banking services in addition to set up of various banks in rural regions to advance agricultural credits to “priority sectors and weaker sections of society”. This provided an opportunity to improve lives of the deprived rural sections of society. However, these nationalised commercial banks somewhere failed to execute the very objective as most of these banks hesitated to serve banking services in the core of underdeveloped areas fearing lack of profitability and performance. On the other hand, poor rural mass were not able to grasp any financial help in time of emergency. Another reason the commercial banks failed is due to the reason that these banks were unable to build the trust among the rural people whereas lack of transport and communication between the urban and rural areas also created an obstacle as most of the nationalised banks set up their branches in the progressive areas instead of regressive areas. Seeing the deplorable condition and the struggle of the rural population it was decided to solve the issue in a more defined way. For this purpose, Narasimham Committee was adopted who recommended on the establishment of a RRB to serve the rural people exclusively.

As per the recommendation the President of India passed an ordinance in the year 1975 and it became an Act when it was passed by the Parliament in 1976. The objective of the Act prohibited doing any commercial profit. The act aimed at providing loans and financial need to the needy rural classes at lesser rate of interest, to build the trust to ensure the protection of their deposits, easy loans and fewer burdens on documentation procedure. During the initial days, the Act bloomed to achieve the mentioned objectives but as yeas passed the RRBs suffered losses, the credit deposit ratio was more than expected. After the initial stages, RRBs suffered heavily as it was not aimed at making

any gains which proved detrimental to its own objective. To overcome the hurdles faced by RRBs, a committee was formed called the Khusro committee. The committee suggested on amalgamation of RRBs with sponsor banks however govt denied it. Later, Narasimham committee also gave the same view with an alternative. They mentioned to allow the RRBs to indulge in other banking services.

#### **4.1. RECAPITALISATION:**

A Company can collect finance in times of financial need or to increase financial or otherwise has two options a) Equity financing b) Debt financing , equity financing has risk capital. This is because under the Equity financing a Company sells a part of their shares to the outsider as a result of which the outsider will have their say in that allotted share. On the other hand, if a Company does not desire to sell their shares can opt for Debt financing by borrowing loans from the Government or from the public in the form of bonds and debentures. Equity financing are short terms whereas Debt financing are long term.

Recapitalization can be defined as the procedure adopted to handle the economic crisis of a company by mixing debt and equity solely for the purpose of securing and sustaining company's finance in a balanced manner. The process of recapitalization mainly involves participation of both equity and debt financing i.e. “in lieu of one form of financing for another, such as transferring preferred shares from the company's capital structure and then replacing them with bonds”.<sup>75</sup>

#### **4.2. RECAPITALIZATION FOR “REGIONAL RURAL BANKS”:**

The aspiration of RRBs is to uplift the agricultural and priority sectors. It is given in the guidelines that RRBs are mandated to supply 75 per cent of their whole budget as loans to priority sector. The priority sectors include “agriculture, small and marginal farmers, as well as micro entrepreneurs and rural artisans”.

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<sup>75</sup> Will Kenton, *Recapitalization*, Investopedia, Jun 4, 2019, <https://www.investopedia.com/terms/r/recapitalization.asp>.

**4.2.1. Background:** Initially there were no such norms relating to maintaining of CRAR in RRBs. A resolution was moved by RBI to initiate disclosure norms for “Capital to Risk Weighted Assets Ratio (CRAR)” of RRBs from Mar. 2008. This resolution required minimum 9 percent CRAR for RRBs to be maintained. The decision was taken upon the recommendations passed by the committee that was organized under the Chairmanship of Dr. K.C. Chakrabarty.<sup>76</sup>

A blueprint for recapitalization of RRBs was endorsed by the Cabinet on the recommendation of the Committee. The meeting was held on 10th February, 2011 in order to grant recapitalization support of Rs. 2,200 crore to 40 RRBs with an additional amount of Rs. 700 crore as contingency fund to meet the requirement of the weak RRBs, particularly in the North Eastern and Eastern Region. The reason behind recapitalization is to provide financial assistance to those RRBs that cannot maintain required CRAR of 9 per cent. Thus, it's been decided that from 31st March of every year onwards, the responsibility to identify those RRBs who failed to keep the minimum CRAR rests upon NABARD. The responsibility of NABARD is to analyze and classify the RRBs that cannot keep the required 9% CRAR, and thus availing them recapitalisation to ensure maintaining the required CRAR of 9% by RBI.<sup>77</sup>

In contemporary times strategy for recapitalisation of RRBs has been expanded till 2020-21. In the period of recapitalizations allotted for 2019-2020, total financial assistance given is Rs. 2,900 crore out of which 50% shares belongs to Government of India and that accounts for Rs. 1,450 crore. Out of Rs. 1,450 crore of Government of India's share an amount of Rs. 1,395.64 crore has been distributed to RRBs for the year 2019-2020 and for the coming years.

The Government has participated considerably to promote the development of RRBs. as a result many times, the Government is found to form Committees from time to time with the purpose also taken for constructing and building the RRBs economically feasible and stability operational. The measures like introducing advance technologies in RRBs and enhancing their publicity to enable RRBs to interact with the public and merging and

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<sup>76</sup>Arun Verma, *Recapitalization of Regional Rural Banks (RRBs)*, IndiaThinkers, Mar 26, 2020, <https://www.indiathinkers.com/2020/03/recapitalization-of-regional-rural-banks.html>.

<sup>77</sup> *Id.*

recapitalisation of RRBs are all a part of pushing a step towards achieving the objectives of Regional Rural Banks.<sup>78</sup>

#### **4.3. Ongoing Recapitalisation of RRBS (2020-2021):**

The Regional Rural Bank Act clearly determines the share holding capacity between the “Central Govt., State Government and Sponsor Banks”. Within the RRBs, GoI holds 50% shares while 35 % and 15% shares by Spons. banks and concerned Govt. of state jointly. In early times the concept of recapitalization for the newly emerged RRBs was not there. It somehow came to exist in the revise stage where problems related to maintenance of minimum CRAR of RRBs as regulated by the RBI became crucial.<sup>79</sup>

RRBs are required to keep at least 9% of CRAR as per RBI norms which began from March 2008, on the recommendation of a committee formed under the chairmanship of former RBI Deputy Governor K C Chakrabarty. After the Committees recommendation was accepted by the Government of India, a pattern for recapitalisation of RRBs was introduced and it got acceptance and approval by the Cabinet in the year 2011. As per the recapitalisation plan, a financial investment of ₹ 2,200 cr. was allotted to 40 RRBs with a supplementary aggregate of ₹ 700 cr. as “contingency fund” to reach the needs of fragile RRBs concentrating specifically in the NE and Eastern region of India.<sup>80</sup>

Post 2011, the recapitalisation plan was decided to go on till it reach the final year 2019-2020 and out of the total investment of ₹ 2,900 cr., 50 percent is forwarded by GoI. However even after the final extended period the recapitalisation scheme for RRBs further extended till the year 2020-2021.<sup>81</sup>

As per recapitalisation process, On 31 March of every year, NABARD takes the responsibility to identify those helpless RRBs that are in dire need of recapitalisation aid to retain the obligatory CRAR of 9%.<sup>82</sup>

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<sup>78</sup> *Supra note 76.*

<sup>79</sup> Capital Market, *Cabinet approves recapitalization of regional rural banks*, BS, Mar 25, 2020.

<sup>80</sup> *Id.*

<sup>81</sup> *Id.*

<sup>82</sup> *Supra note 79.*

“The Cabinet Committee on Economic Affairs (CCEA)” announced that to assist the fragile RRBs, a sufficient sum is required and thus approved a capital of Rs 1,340-crore recapitalisation. The measure was taken on the previously initiated recommendation by “K C Chakrabarty on recapitalisation of RRBs”. Recapitalisation of RRBs is to ensure improvement in their CRAR during 2020-21. RRBs are assigned the obligation to preserve a minimal CRAR of 9% by RBI. In the initial stage RRBs were not required to manage any CRAR. However in present times it is indeed necessary to maintain 9% CRAR by the RRBs, failure of which will be provided recapitalisation to maintain the required CRAR. From the total amount of Rs. 1,340 crore, Rs 670 crore each would be provided by the Centre and sponsor banks.<sup>83</sup>

In the tables mentioned, the CRAR of RRBs during the last seven years (2012-2018) has been given to compare the increase and decrease rate of CRAR of RRBs. In the year 2012, 68 RRBs out of the total RRBs managed to keep their credit ratio above 9% whereas other 14 banks remained within the ration of 1% to 9%. During the year 2013, 61 RRBs maintained 9% and above out of total 64 RRBs. In the year 2014, 56 RRBs maintained 9% and above level of CRAR out of 57 RRBs where only 1 RRB kept CRAR within 5% to 1%. During the year 2015, number of 52 RRBs out of total 56 RRBs secured CRAR of 9% and above. During the years 2016, 2017 and 2018, number of 22 RRBs out of 56 succeeded in maintaining the minimum CRAR required by the RBI.

Sl.no.	Level of CRAR	Number of Regional Rural Banks			
		2012	2013	2014	2015
1.	9% & above	68	61	56	52
2.	7% to 9%	6	1	0	2
3.	7% to 5%	4	1	0	1
4.	5% to 1%	3	0	1	1

<sup>83</sup> *Supra note 79.*

5.	Negative to 1%	1	1	0	0
	Total RRBs	82	64	57	56

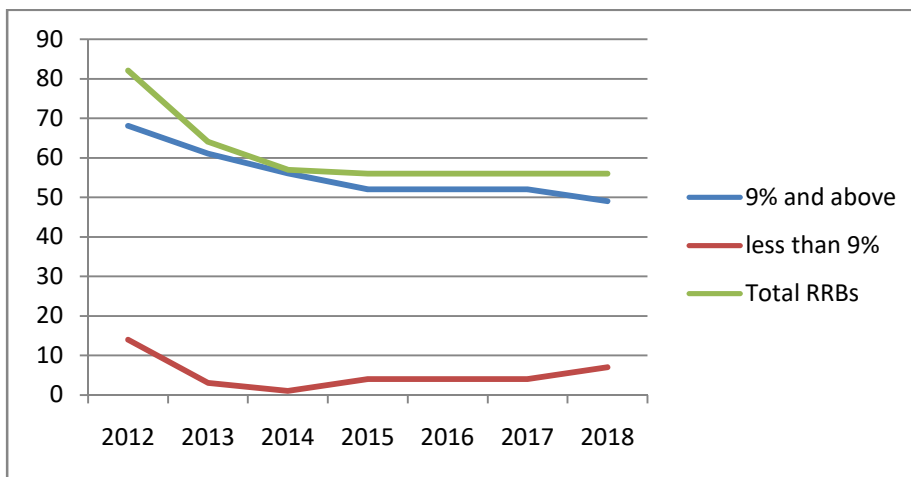
**Table 1.4.** CRAR of RRBs within years 2012 -2015.

**Source:** Author’s work, data collected from NABARD Annual Report.

Sl.no.	Level of CRAR	Number of Regional Rural Banks		
		2016	2017	2018
1.	Less than 5%	-	1	3
2.	5% to 9%	4	4	7
3.	9% to 10%	7	5	9
4.	10% to 12%	23	24	15
5.	Above 12%	22	22	22
	Total RRBs	56	56	56

**Table 1.5.** CRAR of RRBs within years 2016 -2018.

**Source:** Author’s work, data collected from NABARD Annual Report.



**Fig: 1.1.** Chart showing RRBs having high and less CRAR of 9% in the last seven years.

**Source:** Author's work, data collected from NABARD (Annual Report).

#### **4.4.RECOMMENDATION OF KC CHAKRABARTY ON “RECAPITALISATION OF REGIONAL RURAL BANKS”:**

In 2009, the GoI comprised a Committee under the recommendation forwarded by Dr. KC Chakrabarty, the then “Deputy Governor of the Central Bank”. The Chairman of that Committee was Dr. KC Chakrabarty himself. The recommendation was mostly forwarded to ascertain the then ongoing “capital-to-risk-weighted asset ratio (CRAR) of the RRBs”. Most RRBs at that period required CRAR of around 7%. In view of increasing the capital of CRAR, the Committee suggested a plan to reach a target of 9% CRAR for RRBs by March 2012. The recommendation of KC Chakrabarty received acceptance by the central government regarding the RRBs to achieve CRAR of somewhat 9% by 31st of Mar, 2012.<sup>84</sup> However the Central government has accepted the recapitalisation scheme for these RRBs it was not as smooth as accepted. Many hurdles were found hitting at the Centre as the Centre failed to convince some of the states to donate their share of capital as several states denied to give their share of the money. Instead of the dissents from a few States, the cabinet accepted the recapitalization scheme and consented to it. A capital of ₹ 2,200 crore was provided by the Cabinet relating to the recapitalization plan for 40 RRBs in February. Moreover, at the same time the government has proposed the process of amalgamations of RRBs.<sup>85</sup>

Recapitalization of RRBs is considered vital merely for the sole objective that these RRBs has always been important to provide money and loan assistance mostly and particularly to small and marginal farmers, agricultural labourers and rural artisans who are operating in a few districts in a state and along with assisting in the priority-sector lending efforts of sponsor banks. Therefore recapitalization is closely linked to RRBs helping hand towards developing the capital conditions of deprived rural people and as such when there is lack of recapitalization given to RRBs a negative impact falls on the lending capacity of these entities.<sup>86</sup>

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<sup>84</sup> Syskool Staffs, *Recommendation of the KC Chakrabarty Committee on Recapitalisation of RRBs*, Syskool, (1 June, 2020, 3:30PM), <https://syskool.com/recommendation-kc-chakrabarty-committee/>.

<sup>85</sup> Remya Nair, *Government plans flexible equity norms for RRBs*, LM, 02 Jan, 2012, 08:04 pm.

<sup>86</sup> *Id.*

Moreover along with recommending the minimum CRAR for RRBs, it was required to recommend on capital structure for RRBs to make ensure that their CRAR is viable, continuous and promotes subsequent development and conformity with “regulatory requirements”. The committee surrendered its report to the GoI on April 30, 2010.<sup>87</sup>

“Important recommendations of the KC Chakrabarty committee on recapitalisation of RRBs are mentioned in the table”:

82 RRBS from 196 after consolidation process are mandated to keep at least 7 percent of CRAR in RBI as on March 31, 2011 and from subsequent years i.e. from March 31, 2012 a capital of at least 9% are needed to be kept by the RRBs.
Total recapitalisation of Rs. 2200 crore to be allotted for 40 out of the remaining 82 RRBs.
The recapitalisation amount to be released in two installments i.e., Rs. 1338 crore in 2010-11 and Rs. 863 crore 2011-12.
To aid the weaker sections of North-Eastern regions by assisting a supplementary budget of Rs. 700 crore.
Recapitalisation amount are to be kept as share capital deposit.
RRB with higher net worth may be allowed to access capital from the market.
To improve the functioning of the RRB, change of sponsor banks may be considered, where ever required.
RRBs to be recapitalized in the current phase may be allowed to pay the dividend only after achieving a sustainable CRAR of at least 9%.

**Source:** Livemint “govt. plans flexible equity norms”

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<sup>87</sup> *Supra note 85.*



#### **4.5. RESTRUCTURE OF REGIONAL RURAL BANKS:**

CRAFICARD committee which is also known as “Institutional Credits for Agriculture and rural Development” was formed by RBI in 1981 to recommend a relief to the instability of RRBs and approaches to induce the growth of RRBs across the country. The Committee emphasized on transferring the rural branches of rural banks under Commercial banks to be merged with the newly enacted RRBs if it is allowed to do so. The Committee suggested that in order to reduce the instability and to provide a stability of credit flow in the RRBs across country it is necessary that whatever losses is suffered by the RRBs it should be made recoverable by putting the responsibility on the heads of shareholders in the same ratio of their shareholdings. On the other hand, the Committee also shared concerns regarding the weaker RRBs particularly in the North Eastern regions and thus recommends to adhere to a different access to reduce the monetary problems in these backward regions.<sup>88</sup>

Although, the suggestions were not taken into consideration a strategy for recapitalisation of RRBs was adopted afterwards in later years. Under the scheme, economic support was to be assisted by the stockholders in the same distribution of their stockholders. Thereafter, many committees emerged to point out the issue of financial non-viability of RRBs in the next few years.<sup>89</sup>

Committees such as Kelkar Committee which is also alternatively called as Working Groups on RRBs emerged in 1984. The recommendations forwarded by this particular committee is that those small and nonprofit making RRBs, not contributing to the economy of the nation, should be merged for the better economy of RRBs. Following the trend, another committee in 1989 was formed. It was the “Agricultural Credit Review Committee” also popularly known as “Khusro Committee”.<sup>90</sup> This committee initially observed that most of the RRBs suffered terrible organizational problem due to lack of regular profitability, more debts and less recoveries, mismanagement and mistrust in management and among the members of RRBs.<sup>91</sup> The poor performance of RRBs in granting effective and productive result lies in their inability to yield higher results from

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<sup>88</sup> RBI Report, [https://www.rbi.org.in/scripts/BS\\_ViewPublicationReport.aspx](https://www.rbi.org.in/scripts/BS_ViewPublicationReport.aspx).

<sup>89</sup> Biswa Swarup Misra, *The Performance of Regional Rural Banks (RRBs) in India: Has Past anything to suggest for future?* Vol. 27, No. 1 and 2, RBI Occ. Papers, 90-94 (2006).

<sup>90</sup> *Id.*

<sup>91</sup> *Supra note 88.*

loans, recoveries and deposits. The Committee observed that the growth of RRBs have declined drastically and its weaknesses is rampant in the system which cannot be eroded easily to bring the viability in RRBs. The only option that was left is to consolidate the RRBs with concerned Sponsor Banks.<sup>92</sup>

In 1994, the “Committee on Restructuring of RRBs” also called as “Bhandari Committee” was set up. The committee recognized and recommended that 49 RRBs are required to undergo complete restructuring of RRBs. The Bhandari Committee felt that more powers should be handed over to of BODs of RRBs in decision making process relating to growth and development of RRBs and managing the staffs and members within RRBs. Later in 1996 Committee on Revamping of RRBs which is known as Basu Committee brought recommendation in terms of operations of RRBs. They also suggested to redefine the roles of shareholders and hold the view that it might not be possible for some RRBs to be confidently face the “Stand Alone Approach” and thus in such circumstances only termination of RRB would prove beneficial.<sup>93</sup>

“The Expert Group of RRBs in 1997” also referred to as Thingalaya committee suggested that those RRBs which falls under the category of fragile RRBs should be analyzed differently and if possible these very weak RRBs should be allowed to go into liquidation. The Committee is of the opinion that if liquidation of puny RRBs are not feasible then these RRBs should be fused with nearby RRBs. “The Expert Committee on Rural Credit, 2001” popularly known as “Vyas Committee” recommended that “Sponsor Banks should provide required autonomy for RRBs, in their credit and other portfolio management system”. In 2003, a “Chalapathy Rao Committee was set up under the Chairmanship of Chalapathy Rao”. Instructions included merging of entire system of RRBs leaving behind the regional positive features of these RRBs. In the entire process some relaxations should be provided to some Sponsor Banks. “The Group of CMDs of Select Public Sector Banks, 2004 (referred as Purwar Committee)” suggested on “consolidation of RRBs on regional basis into six commercial banks”. These merged RRBs to serve six different regions of India such as – “one each for the Northern, Southern, Eastern, Western, Central and North-Eastern Regions”. It is clearly shows that

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<sup>92</sup> *Supra note 89.*

<sup>93</sup> *Supra note 88.*

many options are provided by different committees to improve the economic stability of RRB either by vertical merger of RRBs where RRBs are merged with Sponsor Banks or horizontal mergers where RRB of a particular region are consolidated together or if needed liquidation process may also be carried out to restructure the failed and weak RRBs.<sup>94</sup>

Lately, a committee was formed called Sardesai Committee in the year 2005 under the “Chairmanship of A.V. Sardesai for restructuring of RRBs”. They said that in order to refine and enhance the productivity and economic growth of RRBs, the way is to merge the existing RRBs after taking the opinions and consideration of the diverse shareholders. Within the RRB Act, 1976 there is no mention of merging of Sponsor banks with RRBs. They also expressed concern that combining a RRB with its Sponsor Bank would defeat the very objective of setting up of RRBs; where the objectives always adhered towards solving the credit inequality in the rural regions. While discussing divergent restructuring process for RRBs, the Committee recommended that may be a change in sponsor banks lead to boost the accomplishment of RRBs.<sup>95</sup>

#### **4.6. AMALGAMATIONS OF RRBS:**

Many initiatives taken to resolve the economic inequality in rural poor with the purpose to cater capital aid and assistance to the growth and development of rural areas and reduction of poverty had been accessible by enacting the Regional Rural Bank Act, 1975. The RRBs and its numerous branches are spread out throughout the states of India except Goa and Sikkim providing economic stability and financial help in improving the distressed conditions of the small and marginal farmers, rural artisans, labourers and moreover to all the priority sectors. In the early period of RRBs, the objectives of RRBs are seen to excel the highest point though it was for temporary span of time. More and more challenges occurred in front of the RRBs; as a result many policy makers started discussing their ideas and suggestions to detect the defects and disabilities harming the growth and capacity of these banks. The lack of stability in financial surplus of the RRBs just after a few years of its establishment raised concern for most of the policy makers.

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<sup>94</sup> *Supra note 89.*

<sup>95</sup> *Id.*

This policy makers thus from time interval expressed and forwarded their various recommendations to financially stabilize the working and functions of RRBs successively.

In amalgamations of RRBs recently “the Ministry of Corporate Affairs (MCA)” provided an immunity to **RRBs** from the “applicability of the merger control regime”. This notification was issued on August 10, 2017 by Ministry of Corporate Affairs. The released notification strictly enumerated the changes by mentioning that “Sections 5 and 6 of the Competition Act, 2002” which is found to deal with “consolidation or combinations of one or more enterprises or acquisitions not more to be applicable in terms of banking companies and as such not to be forced on amalgamations of RRBs for which the Central Government has issued a notification under Section 23A (1) of the Regional Rural Banks Act, 1976 (**RRB Act**)”. However, the exception is valid only upto 9 August 2022.<sup>96</sup>

As per the notification such alternative was taken to separate the banking institutions to come under the direct control of Competition Act. Accordingly, “Sec. 23A of the RRB Act” clearly mentions that the Central Govt. is empowered to order the amalgamation of two or more RRBs, if it is in public interest or in the interest of the development of the area served by such RRBs or in the interest of the RRBs themselves.<sup>97</sup>

Previously this was utmost important for the RRBs to approach the CCI initially before taking down any steps regarding merger of RRBs. One of the core reasons behind seeking prior permission of the CCI is because of the two earlier instances that happened in 2017 related to RRBs. Two RRBs named “*Rajasthan Marudhara Gramin Bank/State Bank of Bikaner and Jaipur*, (Combination Registration No. C-2016/02/377)” and “*Sarva Haryana Gramin Bank/Punjab National Bank* (Combination Registration No. C-2015/12/344)”, were imposed a penalty of ₹ 100,000 by the CCI on the RRBs and spons. bank under “Section 43A” of the Act solely for the purpose of amalgamating the RRBs

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<sup>96</sup> Anshuman Sakle & CAM Competition Team, *MCA's Merger Control Exemption for Regional Rural Banks*, Cyril Amarchand Mangaldas, (6 July, 2020, 5PM), <https://competition.cyrilamarchandblogs.com/2017/08/mcas-merger-control-exemption-regional-rural-banks/>.

<sup>97</sup> *Id.*

without seeking its approval. Prior to such notification, in “*Rajasthan Marudhara Gramin Bank/State Bank of Bikaner and Jaipur* (Combination Registration No. C-2016/02/377)” held that even if the Central Govt. permits for merger of RRBs it cannot do so without disclosing it to the CCI of the amalgamation.<sup>98</sup>

#### **4.7. PHASES OF AMALGAMATION:**

An important objective behind the amalgamation of RRBs is to stabilize the economy of the nation, provide more flexibility in surplus of capital and to enable RRBs to achieve the desire goal, cut excessive burden of RRBs, improve their capital and introducing high efficient technology. Moreover the RRBs are consolidated with the fundamental aim to make these RRBs self sufficient and to achieve better scale-efficiency, higher productivity, to improve services and credits and making easy flow of capital to the RRBs and larger credit outflow to rural regions.<sup>99</sup>

Initially the origin of RRBs raised questions whether these rural banks will function independently or will work on already recognized models of commercial and co operative banks. Thus, with keeping the aims and goals of RRB Act, it was decided to implement the objectives of Regional Rural Banks by fusing both the important banking features of co-operatives as well as commercial banks to get the desired result of a better self sufficient rural bank. The purpose of RRBs was therefore to act as service and to serve the economic needs of underdeveloped areas.<sup>100</sup>

Amalgamation of RRBs was also done with the purpose to serve the best interests of rural population and to lessen the debt burden on existing RRBs. The major amalgamations process of RRBs is divided in 3 stages. The initial stage of amalgamation began in 2005-2006 whereas second was initiated in 2011-2012 and third phase in 2018-2019.

Initially there were 196 no. of RRBs as on 31st Mar, 2005. The GoI decided to carry out the consolidation process of existing RRBs in the country and as such the merging of RRBs started from September, 2005. The first phase was thus introduced in 2005-2006

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<sup>98</sup> *Supra note 96.*

<sup>99</sup> NS Vageesh, *Centre plans amalgamation of RRBs at the state level*, The Hindu BL, June 12, 2018.

<sup>100</sup> *Id.*

and was achieved in February, 2007. Therefore the number of RRBs, after the first phase of amalgamation, has come down to 82 from 196 RRBs. During this stage of amalgamations, RRBs of the same sponsor bank within a State were merged to achieve the purpose<sup>101</sup>.

After the first amalgamation of RRBs (2004-05) no. of RRBs reduced from 196 to 82. In addition at the same time, recapitalisation process was also announced by GoI and thus out of total 82 RRBs, only 40 were allotted to recapitalisation to achieve the minimum CRAR of RBI. Prior to this, no recapitalisation and consolidation measure was adopted by GoI.

Then next stage of amalgamations i.e. second phase was initiated in 2011-12 where RRBs further shrank to 56. In the second phase of consolidation which was occurred in 2011-2012 the RRBs which were closer to each other geographically and though even if they belonged to different sponsor bank were brought together. This further reduced the number to 56.

In briefly, first stage of consolidation of RRBs was introduced in 2005–2006. With passing years by 2010, the number of RRBs in the country was lowered to 82. Next stage of Amalgamation was commenced in 2011–12 where the number of RRBs was further brought down to 56 in the year 2014–15. The Government of India again initiated consolidation process in Phase III in 2018–19 on the principle of “One State–One RRB” in smaller states. The aim was to drop the number of RRBs in bigger states to achieve the somewhere around 40 RRBs throughout India. As a result on 31 March 2019, the number of operating RRBs stood at 53. In the process of amalgamation, it would be further reduced to 45 during 2019–20. In the present scenario, current number of RRBs operating in India comes down at 45.<sup>102</sup>

	State	Name of Regional Rural Bank	Headquarter
i)	“Andhra Pradesh”	1) “Andhra Pragathi Grameena Bank”	“Mariyapuram Kapada”
		2) “Chaitanya Godavari Grameena Bank”	“Guntur”

<sup>101</sup> Namarata Acharya, *Second phase of Regional Rural Banks consolidation begin*, BS, Oct 1, 2012.

<sup>102</sup> NABARD, Annual Report 2018-19.

		3) "Saptagiri Grameena Bank"	"Chittoor"
<b>ii)</b>	"Telangana"	4) "Andhra Pradesh Grameena Vikash Bank"	"Warangal"
		5) "Telangana Grameena Bank"	"Hyderabad"
<b>iii)</b>	"Assam"	6) "Assam Gramin Vikash Bank"	"Guwahati"
<b>iv)</b>	"Arunachal Pradesh"	7) "Arunachal Pradesh Rural Bank"	"Naharlagun"
<b>v)</b>	"Chattisgarh"	8) "Chattisgarh Rajya Gramin"	"Raipur"
<b>vi)</b>	"Bihar"	9) "Uttar Bihar Gramin Bank"	"Muzaffarpur"
		10) "Dakshin Bihar Gramin Bank"	"Patna"
<b>vii)</b>	"Gujarat"	11) "Saurashtra Gramin Bank"	"Rajot"
		12) "Baroda Gujarat Gramin Bank"	"Vadodara"
<b>viii)</b>	"Haryana"	13) "Sarva Haryana Gramin Bank"	"Rohtak"
<b>ix)</b>	"Himachal Pradesh"	14) "Himachal Pradesh Gramin Bank"	"Manali"
<b>x)</b>	"Jharkand"	15) "Jharkand Rajya Gramin Bank"	"Jharkand"
<b>xi)</b>	"Jammu & Kashmir"	16) "Jammu and Kashmir Grameen Bank"	"Jammu"
		17) "Ellaquai Dehati Bank"	"Srinagar"
<b>xii)</b>	"Karnataka"	18) "Karnataka Gramin Bank"	"Ballari"
		19) "Karnataka Vikas Grameena Bank"	"Dharwad"
<b>xiii)</b>	"Kerala"	20) "Kerala Gramin Bank"	"Malappuram"
<b>xiv)</b>	"Maharashtra"	21) "Maharashtra Gramin Bank"	"New Aurangabad"
		22) "Vidharbha Konkan Gramin Bank"	"Nagpur"
<b>xv)</b>	"Madhya Pradesh"	23) "Madhya Pradesh Gramin Bank"	"Indore"
		24) "Madhyanchal Gramin Bank"	"Sagar"
<b>xvi)</b>	"Manipur"	25) "Manipur Rural Bank"	"Imphal west"

<b>xvii)</b>	“Meghalaya”	26) “Meghalaya Rural Bank”	“Shillong”
<b>xviii)</b>	“Mizoram”	27) “Mizoram Rural Bank”	“Aizawl”
<b>xix)</b>	“Nagaland”	28) “Nagaland Rural Bank”	“Kohima”
<b>xx)</b>	“Orissa”	29) “Odisha Gramiya Bank”	“Bhubaneswar”
		30) Utkal Grameen Bank	“Bolangir”
<b>xxi)</b>	“Punjab”	31) “ Punjab Gramin Bank”	“Kapurthala”
<b>xxii)</b>	“Puducherry”	32) “Puduvai Bharathiar Grama Bank”	“Muthialpet, Puducherry”
<b>xxiii)</b>	“Rajasthan”	33) “Baroda Rajastha Ksethriya Gramin Bank”	“Ajmer”
		34) “Rajasthan Marudhara Gramin Bank”	“Jodhpur”
<b>xxiv)</b>	“Tamil Nadu”	35) “Tamil Nadu Grama Bank”	“Salem”
<b>xxv)</b>	“Tripura”	36) “Tripura Gramin Bank”	“Agartala”
<b>xxvi)</b>	“Uttar Pradesh”	37) “Aryavrat Bank”	“Lucknow”
		38) “Baroda UP Gramin Bank”	“Barali”
		39) “Kashi Gomti Samyut Gramin Bank”	“Varanasi”
		40) “Purvanchal Bank Mohaddipur”	“Gorakhpur”
		41) “Prathama UP Gramin Bank”	“Moradabad”
<b>xxvii)</b>	“Uttarakhand”	42) “Uttarakhand Gramin Bank”	“Dehradun”
<b>xxviii)</b>	“West Bengal”	43) “Bongiya Gramin Vikash Bank”	“Berhampore”
		44) “Pashim Banga Gramin Bank”	“Howrah”
		45) “Uttarbanga Kshetriya Gramin Bank”	“Coch Behar”

**Table:1.6.** Current 45 RRBs after amalgamation in 2019.

**Source:** “<https://www.rbi.org.in/commonman/English/Scripts/BanksInIndia.aspx#rrb>”



## CHAPTER-5

### INCEPTION OF REGIONAL RURAL BANK IN ASSAM

The majority of economic development of India is entirely dependent on agriculture and other allied services. Even after six-decades of Independence 58% of the workforce of India are still agriculturists but its progress is quite slow as compared to other sectors. In North-Eastern region of India economy comes from agrarian and rural cultivation. Most of the lives of this region primarily depend on agriculture yet rural banking services reached this region lately. This is because the commercial banking services itself begun to function in a few recent years. Before independence, there were merely 10 commercial banks for the whole north eastern part, out of which ten existed in Assam and other two in the state of Meghalaya. However after Independence and in between 1949-1969, there was surplus in the number of commercial banks and it stood from 10 to around 94 in NE India. Then after the nationalization of banks, no. of banks and bank branches increased drastically across the north eastern region.<sup>103</sup>

Though after nationalisation of banks in India, no. of commercial banks and its branches spread throughout the north-eastern region, the performance of its working and function was not satisfactory. The lack of inefficiency was due to the distant geographical area and it was backward in terms of transportation and communication. Majority lives were dependent on agriculture but there was no such advanced infrastructures and no any such financial support to these agriculturists and small local entrepreneurs. Another reason was that the north eastern region has been given less attention due to which no vital industries were set which resulted in less credit and economy in the NE region. As regards development and advancement in parts of NE states it was very poor. The living standard of this particular region involved simple living style with fewer luxuries. In respect of education, all the facilities of education were available to the people of urban area and rural lives were mostly deprived of educations. Though education was accessible in

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<sup>103</sup> AP PATI, REGIONAL RURAL BANKS IN LIBERALIZED ENVIRONMENT, 136 (1st ed., Mittal Publications, 2005).

developed towns and cities of this region, the quality of education and many more educational institutions lacked behind the phase of development. Banking business also failed to bloom in this entire north eastern region because most of the people were rarely informed and aware of banking service and facilities, resulted in less banking activities within the region.

### **5.1. GROWTH OF REGIONAL RURAL BANKS IN NORTH-EAST:**

The north eastern part of India is now contributing a major part of rural credit to the economy of India. As most of the north-east region is covered by nature and its population being dominated by nature, it was analyzed that what and how much of economy these regions can contribute to the country. To implement the idea, RRBs were assumed to be the better banking business that can contribute rural economy, banking services in the rural regions and advancement and development in this region. Thus, after the enactment of regional rural banks all over India, by the end of year 2019 estimation was made that revealed that in around 68 districts RRBs are operating in the entire NE region. In respect to the state of Assam, the number of RRBs and its branches was more as comparatively higher than other states. Out of the total 68 districts in NE, Assam has branches of RRBs within its 31 districts as per quarterly 4, 2019-2020 Reports of RBI.<sup>104</sup>

From 1 April 2019, LDRB was amalgamated into AGVB that introduced additional no. of branches and districts in the state of Assam. Within NE, RRBs are functioning in 6 districts of Arunachal Pradesh whereas Nagaland stood as the lowest state having lowest number of RRB branches operating only within 2 districts. With respect to Assam, highest no. of deposits (4009 crore) and credits (11050 crore) are received by it by the end of the year 2019 followed by Tripura with deposit of ₹ 7191 crore and credit ₹ 2747 and Mizoram by ₹3384 crore in terms of deposit and 1512 crore credits. On the other hand Nagaland stands lowest in terms of deposit and credit with only ₹ 67 crore and 10 crore respectively. In the district of West Tripura, the RRBs received highest amount of deposits and credits as compared to other districts in entire NE region.

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<sup>104</sup> *Supra note 103*, at 138.

In the present scenario, Assam still leads with the leading no. in respect of districts as well as higher no. of reporting offices, deposits and credits. The AGVB which is one of the leading RRB in Assam has proved itself to be a successful RRB among the entire RRBs in NE region.

<b>“REGIONAL RURAL BANKS IN NORTH EAST REGION”</b>				
<b>2019-2020:Q4</b>			<b>Amount in thousand</b>	
<b>State</b>	<b>District</b>	<b>No. of reporting offices</b>	<b>Deposit</b>	<b>Credit</b>
<b>Arunachal Pradesh</b>	East Siang	5	162	35
	Lower Siang	4	79	13
	Lower Subansiri	3	64	17
	Papumpare	5	184	65
	Siang	3	24	2
	Upper Subansiri	3	99	14
<b>Total</b>	6	23	611	146
<b>Assam</b>	Baksa	13	254	138
	Barpeta	19	561	229
	Biswanath	8	188	51
	Bongaigaon	9	288	76
	Cachar	23	641	118
	Charaideo	10	246	82
	Chirang	7	174	69
	Darrang	15	329	161
	Dhemaji	9	322	87
	Dhubri	12	314	107
	Dibrugarh	17	266	119
	Goalpara	12	313	120
	Golaghat	26	500	155
	Hailakandi	9	275	52
	Hojai	3	65	11
	Jorhat	15	331	118
	Kamrup	19	525	230
	Kamrup (M)	16	915	211
Karbi Anglong	32	441	288	
Karmiganj	17	373	70	
Kokrajhar	11	304	95	
Lakhimpur	20	352	175	

	Morigaon	12	219	119
	Nagaon	36	776	240
	Nalbari	17	436	200
	North Cachar Hills	10	176	72
	Sibsagar	13	362	110
	Sonitpur	25	500	189
	Tinsukia	14	265	85
	Udalguri	12	209	125
	West Karbi Anglong	16	132	108
<b>Total</b>	31	477	11050	4009
<b>Manipur</b>	Bishenpur	4	27	28
	Imphal East	4	66	27
	Imphal West	9	153	63
	Thoubal	4	37	26
<b>Total</b>	4	21	283	145
<b>Meghalaya</b>	East Jaintia Hills	6	290	31
	East Khasi Hills	35	1010	380
	Jaintia Hills	13	351	73
	Ri Bhoi	10	133	64
	South West Garo Hills	3	30	11
	West Garo Hills	4	43	64
	West Khasi Hills	14	308	93
<b>Total</b>	7	85	2165	717
<b>Mizoram</b>	Aizawl	33	1947	637
	Champhai	5	146	64
	Khawzawl	4	56	37
	Kolasib	6	197	97
	Lawngtlai	6	166	180
	Lunglei	7	323	183
	Mamit	6	127	58
	Saiha	3	102	97
	Saitual	5	72	47
	Serchhip	10	248	110
<b>Total</b>	10	85	3384	1512
<b>Nagaland</b>	Dimapur	4	30	14
	Kohima	3	67	10
<b>Total</b>	2	7	97	24

<b>Tripura</b>	Dhalai	14	395	284
	Gomati	16	372	167
	Khowai	9	188	141
	North Tripura	17	625	298
	Sepahijala	16	521	179
	South Tripura	23	932	364
	Unakoti	9	285	137
	West Tripura	45	3873	1179
<b>Total</b>	8	149	7191	2747
<b>Total in NE region</b>	68	847	24780	9301

**Table: 1.7.** Details showing no. of RRBs in different districts; no. of reporting offices, no. of deposits and credits (amount in cr.) of year 2019-20 (quarterly 4) in NE India.

**Source:** “RBI Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks”

## **5.2. GROWTH OF REGIONAL RURAL BANKS IN ASSAM:**

Growth of RRBs in Assam began from the inception of RRB Act 1976. In the beginning there were 5 RRBs functioning in the state. However due to the amalgamation process of RRBs in the year 2006, about 4 RRBs i.e. “Pragiyotish Gaonlia Bank, Lakhimi Gaonlia Bank, Subansiri Gaonlia Bank and Cachar Gramin Bank” which were under the same Spons. bank were merged together as AGVB. Thus from 2006 upto end of March 2019, solely 2 RRBs were primarily functioning in Assam. However, from April 2019, LDRB ceased to exist independently and now amalgamated into AGVB.

According to the Quarterly 4(2019-2020) report presented by RBI Report it is calculated that Nagaon district has highest no. of reporting offices (36) followed by district Karbi Anglong (32) and Golaghat (26). The Kamrup(M) is the only district where majority branches are functioning in urban rather than rural areas and having largest sum of deposit of 915 crore followed by districts like Nagaon (776 crore) deposit and Cachar (641 crore ) deposit. The new amalgamated districts of Karbi Anglong showed a progressive result in terms of credit of around 288 crore apart from other districts in Assam. Whereas, the AGVB branches in the district of Hojai receives lowest amount of credits and deposits i.e. 65 and 11 crore respectively. AGVB received a total of 11050 cr. of deposit and 4009 cr. of credits as per **2019-2020:Q4**.

<b>REGIONAL RURAL BANKS IN ASSAM</b>				
<b>2019-2020:Q4</b>				
<b>State</b>	<b>District</b>	<b>No. of reporting offices</b>	<b>Deposit</b>	<b>Credit</b>
<b>Assam</b>	Baksa	13	254	138
	Barpeta	19	561	229
	Biswanath	8	188	51
	Bongaigaon	9	288	76
	Cachar	23	641	118
	Charaideo	10	246	82
	Chirang	7	174	69
	Darrang	15	329	161
	Dhemaji	9	322	87
	Dhubri	12	314	107
	Dibrugarh	17	266	119
	Goalpara	12	313	120
	Golaghat	26	500	155
	Hailakandi	9	275	52
	Hojai	3	65	11
	Jorhat	15	331	118
	Kamrup	19	525	230
	Kamrup (M)	16	915	211
	Karbi Anglong	32	441	288
	Karimganj	17	373	70
	Kokrajhar	11	304	95
	Lakhimpur	20	352	175
	Morigaon	12	219	119
	Nagaon	36	776	240
	Nalbari	17	436	200
	North Cachar Hills	10	176	72
	Sibsagar	13	362	110
	Sonitpur	25	500	189
	Tinsukia	14	265	85
	Udalguri	12	209	125
	West Karbi Anglong	16	132	108
<b>Total</b>	<b>31</b>	<b>477</b>	<b>11050</b>	<b>4009</b>

**Table:1.8.** Details showing no. of RRBs in different districts; no. of reporting offices, no. of deposits and credits (amount in cr.) of year 2019-20 (quarterly 4) in Assam.

**Source:** “RBI Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks”

The RRBs started to function across the country after it was founded on 2nd Oct, 1975. For the very first time, a pure rural bank began to deal with the rural credit issues in the backward regions thus to provide services to those deprived rural sections of society which were not covered effectively under the existing commercial and co-operative banks. Though the commercial banks and co-operative banks participated in providing rural credits and loans to the deprived rural classes but the core problem lied in the working conditions of these banks. The objectives of these commercial and co-operative banks were not wholly productive and this is why most of these bank branches were set up in the urban or semi-urban areas with the objective to gain profits instead of yielding high productive credit services to the disadvantaged people. Therefore, seeing the ineffective result of the activities carried out by the commercial and co-operative banks, a decision was thus taken by the GoI to adopt the recommendations of the Narasimham Committee in order to introduce a regional rural bank whose purpose and objective would totally differ from the other existing banks. As a result RRBs are established throughout the country and even in Assam also it somewhere started to function with the establishment of Pragjyotish Gaonlia Bank. On July, 6 of 1976, Pragjyotish Gaonlia Bank was set up as the first RRB in Assam under the RRB Act, 1976. Its head office was at Nalbari. A brief introduction of Pragjyotish Gaonlia Bank is discussed below which now ceased to exists.<sup>105</sup>

### **5.2.1. Pragjyotish Gaonlia Bank:**

Pragjyotish Gaonlia Bank (PGB in short) began to function as the first RRB in North East region of India after its establishment on 6th of July, 1976. It was sponsored by UBI with its Head Office at Nalbari, District Nalbari, Assam. PGB was a scheduled bank under the RBI Act. For the whole north eastern region, Pragjyotish Gaonlia Bank was the first ever RRB that was set up and spread over almost 10 districts of Assam such as Nalbari,

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<sup>105</sup> Anonymous, *Regional Rural Banking System in Assam- Its Pre merger and post merger scenario*, Shodhganga@INFLIBNET (May 29, 2020, 10:05 AM), [https://shodhganga.inflibnet.ac.in/bitstream/10603/67146/12/12\\_chapter%204.pdf](https://shodhganga.inflibnet.ac.in/bitstream/10603/67146/12/12_chapter%204.pdf).

Kamrup, Kamrup (M), Darrang, Barpeta, Dhubri, Sonitpur, Goalpara, Kokrajhar, Bongaigaon, Chirang, Baksa and Udalguri.<sup>106</sup>

After the formation of PGB, many small entrepreneurs got an opportunity to establish their own small business within the regional locations. Today though the bank in no more in existence, this bank proved a magnificent role in development of credit and finance and provided huge financial assistance in uprising the agriculture and many other allied activities related to it; helped many poor and marginal farmers; assured help in opening many small scale and cottage industries, construction and repairing of houses, village and rural artisans etc. At a time, PGB received the appreciation and awards from Govt. of Assam for continuously for three years for proving its extra ordinary operation and act in SHG Banks Linkage programmed in the State.<sup>107</sup>

**5.2.3. Lakhimi Gaonlia Bank:** Lakhimi Gaonlia Bank (shortly as LGB) was formed with a shareholding of capital shared by GoI, Govt. of Assam and sponsored by UBI. This rural bank was established on 29th July, 1980 with its head office opened at Golaghat.<sup>108</sup>

Initially when LGB was formed, it initiated its operation and functions within 5 districts which included “Sibsagar, Jorhat, Golaghat, Nagaon and Morigaon”. The rural bank was formed with the same objectives which are mentioned in the RRB Act, 1976. Then the branches of this rural bank provided helpful banking services and aid to the backward disadvantaged people there. Development Blocks were formed under this bank to enhance and spread the banking facilities to the villagers of the districts of Sivasagar, Jorhat, Golaghat, Nagaon and Morigaon.

**5.2.4. “Subansiri Gaonlia Bank”:** “Subansiri Gaonlia Bank” was formed by joint partnership of GoI, Govt. of Assam and Sponsor Bank i.e. UBI. It came into operation from 30th March 1982. This bank was formed to assist credit services to the unbanked poor people of Assam. In the past, the bank had its branches in mostly 4 districts of Assam which included “Lakhimpur, Dhemaji, Dibrugarh and Tinsukia”. Previously all

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<sup>106</sup> *Supra note* 105.

<sup>107</sup> *Id.*

<sup>108</sup> *Id.*



these districts came under the whole Lakimpur district. As the bank was originated in 1982, these districts were not clearly separated from each other. The Lakimpur district was more underdeveloped as compared to Dibrugarh. Thus, in order to upgrade the backward district i.e. Lakhimpur, a major step was adopted through establishment of RRB there. The headquarter of newly established RRB i.e. Subansiri Gaonlia bank was formed at North Lakhimpur district. Many schemes and programmes were introduced by the bank in order to issue credit and loans to the farmers and agriculturists.<sup>109</sup>

**5.2.5. Cachar Gramin Bank:** Cachar Gramin Bank, (CGB in short) a rural bank established on 31 March of 1981 in the state of Assam under the RRB Act, 1976 of shareholding from GoI, Govt. of Assam and UBI. From the very beginning of its formation, the bank indulged in reducing the financial inequality in the underdeveloped districts of Silchar, Assam. As the bank was created under the RRB Act it focused in improving the banking facilities of the underdeveloped regions. Under the CGB many opportunities and schemes were initiated by the Govt. to offer the credit needs of the poor rural mass. The bank took up many programmes to spread the awareness of the banking services to the ignorant population. The branches of the bank functioned within 3 districts of “Cachar, Karimganj and Hailakandi of Assam”. The bank resulted in good performance in deposit mobilization, broad achievement in advance and profitability. KCC and SHG formed major part in advancing loans easily to the farmers and rural masses.<sup>110</sup>

**5.2.6. “Langpi Dehangi Rural Bank”:** Originally the “Langpi Dehangi Rural Bank” (LDRB in short) was formed by the leading partnership of Central Govt., State of Assam and sponsored by the SBI.. It was created on 27 Jan 1982 u/s 3 cl. of RRB Act, 1976. The main office of the Bank was situated at Diphu, the district headquarters of Karbi Anglong District. LDRB was set up to provide paramount services of bank along with contributing rural economy to the only hilly districts of Karbi Anglong, Assam.<sup>111</sup>

Presently the bank is merged with AGVB by a notification released on 22 February of 2019. The AGVB which sponsored by the UBI and SBI and LDRB being sponsored by

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<sup>109</sup> *Supra note 105.*

<sup>110</sup> *Id.*

<sup>111</sup> *Id.*

the SBI now merged into a single RRB which called as “Assam Gramin Vikash Bank” as the largest RRB in Assam with its headquarter at Guwahati being sponsored by SBI.

The LDRB functioned fundamentally within the two districts of Assam i.e. “Karbi Anglong and Dima Hasao”. It was the sole independent RRB in those districts. With the new amalgamation now the LDRB works along with the AGVB in providing “banking services in the rural, semi-urban and urban areas to the farmers, agriculturist, priority sectors and non priority sectors”. On 1 April 2019, LDRB was amalgamated with AGVB and thus newly formed to be known as, AGVB.

Sl. No.	Name of the RRBs	Sponsor Bank
1	“Cachar Gramin Bank”	“U. B.I”
2	“Lakhimi Gaonlia Bank”	“U. B.I”
3	“Langpi Dehangi Rural Bank”	“S.B.I”
4	“Pragjyotish Gaonlia Bank”	“U. B.I”
5	“Subansiri Gaonlia Bank”	“U. B.I”

**Source:** AGVB Annual report

### 5.2.7. Post-merger Scenario- “Assam Gramin Vikash Bank”

The concept of RRB was originated in Assam with the set up of Pragjyotish Gaonlia Bank on 06-07-1976 under the RRB Act, 1976. This was the first RRB in the entire region of NE. On 29/7/1980 Lakhimi Gaonlia Bank was founded and then in the subsequent years two other RRBs such as “Cachar Gramin Bank” on 31-Mar-1981, “Langpi Dehangi Rural Bank” on 27 January, 1982 and “Subansiri Gaonlia Bank” on 30 March 1982 were instituted in Assam to cater the financial assistance to the uneconomic people of Assam.

Prior before amalgamation of RRBs into AGVB there were jointly five RRBs operating at different districts in Assam. The old RRBs consolidated were-“Pragjyotish Gaonlia Bank”, “Lakhimi Gaonlia Bank”, “Cachar Gramin Bank” and “Subansiri Gaonlia Bank”<sup>112</sup>

<sup>112</sup> Assam Gramin Vikash Bank <https://www.agvbank.co.in/>.

In April 1 of 2019, the LDRB which was operating independently in the three hilly districts, of “Karbi Anglong, West Karbi Anglong and Dima Hasao” now merged with AGVB to be known as the AGVB.<sup>113</sup>

The “**Assam Gramin Vikash Bank**” has come into existence from 12/1/ 2006 covering the areas of operation of the pre-amalgamated RRBs with its HO at Guwahati. AGVBs head office is situated at Mahapurush Srimanta Sankerdev Path, Bhangagarh, Guwahati-781005, in the district of Kamrup (M). Districts such as Nalbari, Golaghat, Silchar, Lakhimpur, Guwahati and Kokrajhar and Dibrugarh have largest branches of AGVB among all other districts as per F.Y. 2018-2019 report. Out of total 414 branches, highest no. of branches is there in Golaghat.

<b>“Head Office at Guwahati Mahapurush Srimanta Sankerdev Path, Bhangagarh, Guwahati-781005”</b>		
<b>Seven Regional Offices at</b>		
1.	<b>“Nalbari</b> (PNC Road, P.O. & District: Nalbari, Assam PIN-781335)”	74 Branches
2.	<b>Golaghat</b> (Kushal Path, New Amolapatty, P.O. & Dist.: Golaghat, Assam PIN-785 621)	78 Branches
3.	<b>Silchar</b> ( Chowrangee, Ambicapatty, Silchar, Dist.: Cachar, Assam PIN- 788 004)	48 Branches
4.	<b>Lakhimpur</b> ( Hospital Road, North Lakhimpur, Dist.: Lakhimpur Assam PIN-787 001)	61 Branches
5.	<b>Guwahati</b> (Rajgarh Road, Chandmari, Guwahati, Assam PIN- 783 370)	48 Branches

**Table:** Distribution of AGVB’s regional offices and bank branches.

**Source:** AGVB Annual report 2018-2019

According to F.Y. 2018-2019, 30 out of 33 districts of the State are spread over in 414 branches. The bank fundamentally focuses on enhancing better services to customers, better, profits to its shareholders and Sponsor banks.

#### **A) Objectives and Obligations of Assam Gramin Vikash Bank:**

The objectives of AGVB are similar to that of RRB Act. Accordingly, 75 % of credits are reserved for the priority sectors as per the guidelines of RBI. AGVB provides credit to

<sup>113</sup> *Supra note 112.*

agriculture, MSME, trade & services and other productive activities, with thrust on productive credit to the small & marginal farmers, agricultural labourers, artisans and small entrepreneurs, SHGs, etc. and also to transact business as defined in Section 18(2) of the RRB Act, 1976 and S. 6(1) of Banking Regulation Act, 1949.<sup>114</sup>

**Obligations of AGVB:**

To serve the rural population, the poor and denied mass with all banking facilities for growing of agricultural production and allied services.
To uplift poorer sections and downtrodden.
Providing opportunities for employment to rural youth.
To develop rural economy and rural Assam.
To provide better services and professional integrity.
To spread Banking Literacy to each household.
To initiate programmes for economic upliftment of the people of Assam.
To accomplish the mandate set out for the RRBs.

**Source:** “<https://www.agvbank.co.in/>.”

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<sup>114</sup> *Supra* note 112.

## CHAPTER -6

### ROLE OF ASSAM GRAMIN VIKASH BANK IN FINANCIALLY UPLIFTING ASSAM

The concept of poverty is inherent in India. From time immemorial the nation has tried to visualize the impacts of poverty in the country. The most ignorant, illiteracy and living in diverse geographical regions are the backward and underprivileged ones who often fails to understand the difference between living and living a decent life. It was important to make these unaware populations the importance of advancement in lives and society. Therefore with the passing years, these backward people have come to realizes the importance of decent living and this was possible when many underprivileged has come to started owning their own land, tractor, agricultural materials with the assistance from the bank. The concept of banking has brought a different scenario especially into the lives of rural people. Though banks were early established in the urban areas but it took many years to enter the rural section of society. When co operatives banks were formed to “advance the banking services to the rural and semi-urban regions” it somewhere failed to achieve successfully. The reason behind it was the co operatives though pledged to serve the rural regions it was more oriented towards giving credits to small industrialists, entrepreneurs rather than lending loans to the underprivileged at lesser rate of interest. Thus serving the poor mass was difficult and hard. In later times, in order to introduce a pure rural bank to aid the backward mass was much needed and that’s when the regional rural bank emerged as the savior to these poor people.

Assam, a part of north-eastern region of India has always been an agricultural state due to its rich material sediments of the Brahmaputra river. The majority of this region dependent on agriculture for its living but in early times there was no such concept of RRBs in Assam, even the banking services emerged in the entire NE region after a lengthy span of time. Then RRBs were established along with the other RRBs in the country. It was very much needed to include the financial inclusion in Assam. The rural poor people of Assam lacked monetary resources creating hindrance in both contributing to agriculture and priority sectors and in advancement of rural economy. The RRBs thus

proved beneficial and now even the poor underdeveloped regions no more untouched by the services of bank.

Presently, the AGVB is the leading RRB in the state of Assam though it started to function only after its formation by merging of the four RRBs in the year 2006. From the year 2006, it is observed that AGVB is functioning as the most efficient RRB not only in Assam but also in the entire NE Region. Many initiatives are taken by AGVB to reduce the economic burden on the needy and poor population. The mission of AGVB includes serving the rural mass, providing employment opportunities to the rural youths, introducing awareness of banking literacy, developing schemes to uplift the beneficiaries, increase agricultural production, assisting the small entrepreneurs of rural and semi-urban regions and most importantly to end the misery of the ignorant and illiterate ones.

#### **6.1. DISTRIBUTION OF ASSAM GRAMIN VIKASH BANK BRANCHES IN ASSAM:**

The AGVB proved itself as the largest RRB in entire north-east region. It's the only amalgamated bank in the entire NE region that stood to be excessive successful. Recently the Lehangpi Dehangi Rural bank was amalgamated into AGVB and now forms a part of it. Within the NE, these RRBs are functioning within the seven states except Sikkim. Out of the total 7 states, Assam stands highest with largest number of districts, in “rural, semi-urban and urban areas”. According to the financial report of AGVB (2018-2019), AGVB is functioning within 30 districts of Assam where, Nagaon has the largest no. of AGVB branches of around 29 and these branches are dominantly spread over rural regions. Whereas in the newly formed district of Assam, i.e. Majuli, and district South Salmora, least number of branches of AGVB is functioning there. Kamrup (M) is the only district having majority number of branches operating in the urban regions, followed by Cachar, Dibrugarh and Charaideo. In the financial year 2018-2019, AGVB are operating in 30 districts, with total “414 branches” out of which “322 in rural”, “65 in semi-rural” and “27 in urban areas”.

“Sl.No.”	“District”	“Rural”	“Semi-Urban”	“Urban”	“TOTAL”
1	“Nalbari”	16	2	-	18

2	“Baksa”	12	-	-	12
3	“Barpeta”	15	4	-	19
4	“Kamrup (M)”	3	-	12	15
5	“Kamrup”	16	2	-	18
6	“Darrang”	13	2	-	15
7	“Udalguri”	10	2	-	12
8	“Sonitpur”	14	3	-	17
9	“Biswanath”	14	2	-	16
10	“Goalpara”	10	2	-	12
11	“Dhubri”	7	5	-	12
12	“South Salmara”	1	1	-	2
13	“Kokrajhar”	9	1	-	10
14	“Chirang”	4	2	-	6
15	“Bongaigaon”	8	2	-	10
16	“Sivasagar”	10	2	-	12
17	“Charaideo”	10	1	-	11
18	“Jorhat”	12	-	3	15
19	“Majuli”	2	-	-	2
20	“Golaghat”	20	5	-	25
21	“Nagaon”	25	2	2	29
22	“Hojai”	4	3	-	7
23	“Morigaon”	11	2	-	13
24	“Cachar”	17	-	5	22
25	“Hailakandi”	5	4	-	9
26	“Karimganj”	13	4	-	17
27	“Lakhimpur”	15	3	-	18
28	“Dhemaji”	8	2	-	10
29	“Dibrugarh”	12	2	2	16
30	“Tinsukia”	6	5	3	14
	“Total”	322	65	27	414

**Table: 1.9.** “No. of districts, total no.of branches in rural, semi-urban and urban areas”.

**Source:** AGVB Annual Report (2018-2019).

## **6.2. PROFITABILITY OF ASSAM GRAMIN VIKASH BANK:**

AGVB undoubtedly contributed huge credits in uplifting the disadvantaged mass in the state. It has developed gradually in recent times in regards of business, growth ratio , deposits, lending loans and credits and even from time to time many initiatives were taken to improve the recovery rate of NPAs. To start with, a comparison is made between

the past 5 financial years ranging from 2014-2015 upto 2018-2019. From the year 2014-2015, a good increase is seen in terms of business that indicates viability of AGVB. However, the growth rate against previous years is in a up and down situation, where the F.Y 2014-2015 is more as compared to the other 4 F.Y. The year 2015-16 showed the least growth against its previous year, whereas F.Y. 2018-2019 showed surplus as compared to its previous year 2017-18. Growth of maximum deposits of around ₹ 9257.46 crore found within 2018-2019. Moreover, a good sum of deposits is witnessed in the last financial years. i.e. 2016-2017 to 2018-2019. In terms of loans and advances, a highest demand was seen in the F.Y. 2016-2017 of around ₹ 4147.84 crore.

The year 2014-2015 witnessed high no. of opening of savings bank account whereas the no. decreased in the year 2015-16, 2016-17 and 2017-2018. The F.Y. 2017-2018 revealed only 757176 no. of opening of new savings account. However, the F.Y. 2018-2019 showed a gain in the no. of accounts to its last year. The AGVB showed a positive result in recovery of NPAs. Every year, the NPAs are improving if compared from year 2014-15 to 2018-2019. During the year 2018-19 around ₹ 414.39 crore are recovered as NPAs by AGVB. The credit ratio rate is in 52.72% on 31/3/2015, 55.98% on 31/3/2016, 52.34% on 31/3/2017, 46.02% on 31/3/2018 and 39.38% on 31/3/2019.

<b>“Particulars”</b>	<b>“Year 2014-15”</b>	<b>“Year 2015-16”</b>	<b>“Year 2016-17”</b>	<b>“Year 2017-18”</b>	<b>“Year 2018-19”</b>
<b>Business surplus</b>	₹ 11330.21 crore	₹ 11514.14 crore	₹ 12072.06 crore	₹ 12422.28 crore	₹ 12903.47 crore
<b>Growth rate against previous year (%)</b>	12.21%	1.62%	4.85%	2.90%	3.87%
<b>Deposits</b>	₹ 7418.87 crore	₹ 7381.95 crore	₹ 7924.22 crore	₹ 8507.47 crore	₹ 9257.46 crore

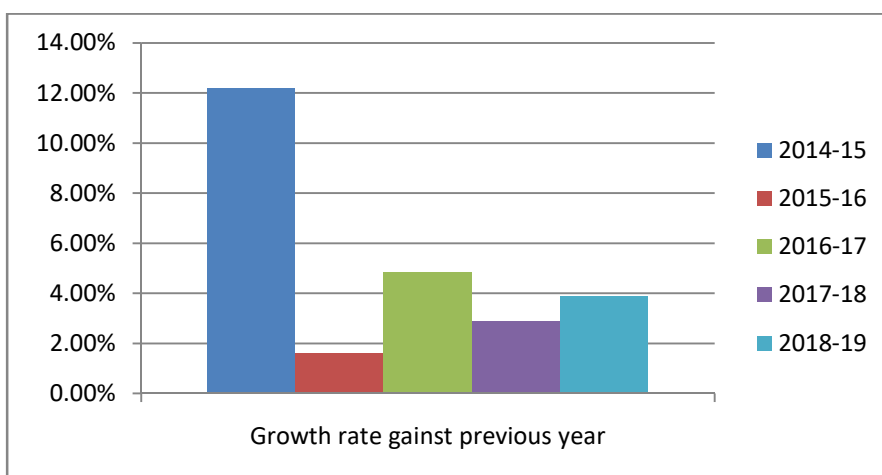


<b>Loans and advances</b>	₹ 3911.34 crore	₹ 4132.19 crore	₹ 4147.84 crore	₹ 3914.81 crore	₹3646.01 Crore
<b>New Savings Bank Accounts</b>	1553677	1016575	1398055	757176	1031664
<b>Total recovery of NPA</b>	₹ 102.72crore and 538.83 lakh from Shadow Register Accounts	₹ 102.65 crore and 401.00 lakh from Shadow Register Accounts	₹ 317.30 crore and 769.18 lakh from Shadow Register Accounts	₹ 350.38 crore	₹ 414.39 crore
<b>Credit Deposit Ratio (%)</b>	52.72% (on 31/3/2015)	55.98% (on 31/3/2016)	52.34% (on 31/3/2017)	46.02% (on 31/3/2018)	39.38%(on 31/3/2019)

**Table 1.10.** Particulars of last five FY of AGVB.

**Source:** Author's work, data collected from AGVB Annual Reports.

The above table shows comparison between last five previous financial years of Assam Gramin Vikash Bank. The table indicates that growth rate against previous year of 2014-2015 shows a good remarkable rate as compared to last financial years of 2015-16, 2016-17, 2017-18, 2018-2019. Whereas performance of growth rate of 2015-16 financial years declined terribly as compared to 2016-2017, 2017-18, 2018-19. However, financial year 2018-19 has shown a surplus of 0.97% from previous financial year.



**Fig: 1.2.** Chart showing the increase and decrease of growth rate against five financial previous years.

**Source:** Researcher’s work; data collected from Annual Reports of AGVB.

### 6.3. LOANS AND ADVANCES BY ASSAM GRAMIN VIKASH BANK:

The AGVB being a RRB indulges in providing credits expeditiously to priority sectors. These priority sectors include “agricultural and allied sectors, SSI/MSE, housing loan, services and others”. Apart from priority sectors, loans are also forwarded to non-priority sectors. As on 31.03.2018, priority sectors received ₹ 34429041 thousand of advances whereas non priority sector received ₹ 4719058 thousand. Total no. of advances by AGVB was ₹ 39148099 thousand out of which 63.75% of loans and credits was issued to weaker sections.

On 31.03.2019, it is estimated that 88.47% of advances is given to priority sectors whereas 11.53% towards non-priority sectors. A sum of ₹ 36460109 thousand received by AGVB out of which 64.95% granted to mostly fragile sections. It is revealed that priority sectors and weaker sections are greatly benefitted by AGVB.

“Category of Advances”	“As on 31.03.2017”		“As on 31.03.2018”	
	“Amount”	“As % of total loans disbursed”	“Amount”	
“Agri & Allied”	18474698	47.19	18191360	49.89
“SSI/MSME”	13139252	33.56	11594286	31.80
“Services & Others”	722295	1.85	655283	1.80
“Housing loan”	2092796	5.35	1815602	4.98
“Total priority sector”	<b>34429041</b>	<b>87.95</b>	<b>32256531</b>	<b>88.47</b>
“Non- priority Sector”	<b>4719058</b>	<b>12.05</b>	<b>4203578</b>	<b>11.53</b>
“Total advances”	<b>39148099</b>	<b>100.00</b>	<b>36460109</b>	<b>100.00</b>
Weaker sections	<b>24957812</b>	-	<b>23682731</b>	-

(“Amount in thousand”)

**Table:1.11.** Advances by AGVB as on 31.03.2018 & 31.03.2018.

**Source:** AGVB Annual Report 2018-19

#### **6.4. BORROWINGS OF ASSAM GRAMIN VIKASH BANK :**

A comparison study is conducted to find out the difference of borrowings being accepted by the AGVB during the last five previous years. As such during the year 2014-2015, the AGVB took financial assistance as refinance from NABARD, National Schedule Tribes Finance and Development Corporation in short NSTFDC and National Housing Board (NHB). An amount of ₹ 2448722 thousand availed by AGVB from NABARD whereas “ ₹ 4600 thousand from NSTFDC and ₹ 650000 thousand from NHB”. On the other hand out of the total refinance taken by AGVB an amount of ₹ 746877 thousand was provided for ST(SAO).<sup>115</sup>

It is important to mention that “there was no failure in repayment of either installment or interest by the bank”. As regards outstanding borrowings of the bank ₹ 4178269 thousand on 31/3/2015 remained against ₹ 1395984 thousand as on 31/03/2014.<sup>116</sup>

During the year 2015-2016, the Assam Gramin Vikash Bank took financial assistance as refinance from NABARD. A refinance amount was availed by “AGVB from NABARD to the extent of ₹ 2046683. Whereas out of the total refinance taken by AGVB an amount of ₹ 515333 thousand has been withdrawn for ST(SAO)”.<sup>117</sup>

However, even in the year of 2015-2016, “there was no failure in repayment of either installment or interest by the bank”. As regards outstanding borrowings of the bank, an amount of ₹ 5832137 thousand on 31/3/2016 remained against ₹ 4178269 thousand as on 31/03/2015.<sup>118</sup>

During the year 2016-2017, the Assam Gramin Vikash Bank availed financial assistance as refinance from NABARD. An amount of ₹ 1763520 thousand was able to be availed

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<sup>115</sup> AGVB, Annual Report 2014-15.

<sup>116</sup> *Id.*

<sup>117</sup> AGVB, Annual Report 2015-16.

<sup>118</sup> *Id.*

by AGVB from NABARD. On the other hand, out of the total refinance taken by AGVB “an amount of ₹576535 thousand has been withdrawn for ST(SAO)”.<sup>119</sup>

It is important to mention that “there was no failure in repayment of either installment or interest by the bank during the year 2016-2017”. As regards outstanding borrowings of the bank, an amount of ₹ 6151441 thousand on 31/3/2017 remained against ₹ 5832137 thousand as on 31/03/2016.<sup>120</sup>

During the year 2017-2018, the AGVB took financial assistance as refinance from NABARD. An amount of ₹ 270269 thousand was availed by AGVB from NABARD. Whereas out of the total refinance taken by AGVB an amount of ₹ 153345thousand has been withdrawn for ST (SAO).<sup>121</sup>

It is important to mention that “there was no failure in repayment of either installment or interest by the bank”. As regards outstanding borrowings of the bank, “an amount of ₹ 3864377 thousand on 31/3/2018 remained against ₹ 6151441 thousand as on 31/03/2019 inclusive of other borrowings”.<sup>122</sup>

During the year 2018-2019, the AGVB availed no refinance from NABARD.<sup>123</sup>

As per the year 2018-2019 “there was no failure in repayment of either installment or interest by the AGVB. As regards outstanding borrowings of the bank, a sum of ₹ 3105957 thousand on 31/3/2019 remained against ₹ 3864377 thousand as on 31/03/2018 inclusive of other borrowings”.<sup>124</sup>

<b>Year</b>	<b>Refinance</b>	<b>Amount withdrawn for ST(SAO) from total refinance</b>
2014-2015	₹ 2448722 thousand (NABARD) ₹ 4600 thousand (NSTFDC)	₹ 746877 thousand

<sup>119</sup> AGVB, Annual Report 2016-17.

<sup>120</sup> *Supra note* 119.

<sup>121</sup> AGVB, Annual Report 2017-18.

<sup>122</sup> AGVB, Annual Report 2018-19.

<sup>123</sup> *Id.*

<sup>124</sup> *Id.*

	₹ 650000 thousand NHB	
2015-2016	₹ 2046683 thousand	₹ 515333 thousand
2016-2017	₹ 1763520 thousand	₹ 576535 thousand
2017-2018	₹ 270269 thousand	₹ 153345 thousand
2018-2019	No refinance	Nil

**Source:** Author's work, data collected from AGVB Annual Report

### **6.5. GROWTH AND DEVELOPMENT OF ASSAM GRAMIN VIKASH BANK:**

With the recent growth and development in AGVB, the operation of its working in various bank branches has developed in a positive manner. One of the signs of viability and progress in RRBs are recognized when there is surplus of deposits in its bank branches. From the following table, it is highlighted that-

i) On **31.03.2014**, around 4802852 no. of both current and savings account are opened with 146079 and 4656773 respectively. Whereas total demand deposits was around 42015335 thousand indicating a growth of 20.30% in C.A. and 14.37% in S.B. amounting to altogether a growth of 14.99% in terms of demand deposits (C.A. + S.B.). On the other hand 470329 no. of term deposits account are opened with a sum of 22284343 thousand amounting to 18.68%. Thus, total no. of accounts and total sum that was witnessed is 5273181 and 64299678 thousand. Thus on 31 March, 2014 growth rate of 16.25% is witnessed in terms of deposits in AGVB.

ii) On **31.03.2015**, around 6349545 no. of both current and savings account are opened with 150797 and 6198748 respectively. Whereas total demand deposits was around 46715675 thousand indicating a growth of -12.87 % in C.A. and 14.17% in S.B. amounting to altogether a growth of 11.19 in terms of demand deposits (C.A. + S.B.). On the other hand 479286 no. of term deposits accounts are opened with a sum of 27472999 thousand amounting to 23.28 %. Thus, total no. of accounts and total sum that was witnessed is 6828831 and 74188674 thousand. Thus on 31 March, 2015 growth rate of 53.28 % is witnessed in terms of total deposits in AGVB.

iii) On **31.03.2016**, around 7462476 no. of both current and savings account are opened with 179874 and 179874 respectively. Whereas total demand deposits was around 47517719 thousand indicating a growth of 2.40% in C.A. and 1.65% in S.B. amounting to altogether a growth of 1.72 % in terms of demand deposits (C.A. + S.B.). On the other hand 959196 no. of term deposits accounts are opened with a sum of 26301807 thousand amounting to -4.26 %. Thus, total no. of accounts and total sum that was witnessed is 8421672 and 73819526 thousand. Thus on 31 March, 2016 negative growth rate of -0.50 % is witnessed in terms of total deposits in AGVB.

iv) On **31.03.2017**, around 8869329 no. of both current and savings account are opened with 189449 and 8679880 respectively. Whereas total demand deposits was around 52574452 thousand indicating a growth of 6.59% in C.A. and 11.03% in S.B. amounting to altogether a growth of 10.64 % in terms of demand deposits (C.A. + S.B.). On the other hand 1053500 no. of accounts of term deposits are opened with a sum of 26667713 thousand amounting to 1.39 %. Thus, total no. of accounts and total sum that was witnessed is 9922829 and 79242165 thousand. Thus on 31 March, 2017 growth rate of 7.35 % is witnessed in terms of deposits in AGVB.

v) On **31.03.2018**, around 9614611 no. of both current and savings account are opened with 199342 and 9415269 respectively. Whereas total demand deposits was around 58319399 thousand indicating a growth of -8.63 % in C.A. and 12.69 % in S.B. amounting to altogether a growth of 10.93 % in terms of demand deposits (C.A. + S.B.). On the other hand, 1131674 no. of accounts of term deposits are opened with a sum of 26755330 thousand amounting to 0.33 %. Thus, total no. of accounts and total sum that was witnessed is 10746285 and 85074729 thousand. Thus on 31 March, 2018 growth rate of 7.36 % is witnessed in terms of deposits in AGVB.

vi) On **31.03.2019**, around 10513560 no. of both current and savings account are opened with 161029 and 62281711 respectively. Whereas total demand deposits was around 66583076 thousand indicating a growth of 6.44% in C.A. and 14.74% in S.B. amounting to altogether a growth of 14.17% in terms of demand deposits (C.A. + S.B.). On the other hand 388945 no. of accounts of term deposits are opened with a sum of 25991547 thousand amounting to -2.85 %. Thus, total no. of accounts and total sum that

was witnessed is 10902505 and 92574623 thousand. Thus on 31 March, 2019 growth rate of 8.82 % is witnessed in terms of deposits in AGVB.

“Category”	“As on 31.03.2014”			“As on 31.03.2015”		
	“Accounts”	“Amount”	“Growth (%)”	“Accounts”	“Sum”	“Growth (%)”
1. “Current Account”	146079	4637760	20.30	150797	4040801	-12.87
1. “Savings Bank”	4656773	37377575	14.37	6198748	42674874	14.17
3. “Demand Deposit(1+2)”	4802852	42015335	14.99	6349545	46715675	11.19
3. “Term deposit”	470329	22284343	18.68	479286	27472999	23.28
“TOTAL”	5273181	64299678	16.25	6828831	74188674	15.38

“Category”	“As on 31.03.2016”			“As on 31.03.2017”		
	“Accounts”	“Amount”	“Growth (%)”	“Accounts”	“Sum”	“Growth (%)”
1. “Current Account”	179874	4137885	2.40	189449	4410361	6.59
2. “Savings Bank”	7282602	43379834	1.65	8679880	48164091	11.03
3. “Demand Deposit(1 plus 2)”	7462476	47517719	1.72	8869329	52574452	10.64
3. “Term deposit”	959196	26301807	-4.26	1053500	26667713	1.39
“TOTAL”	8421672	73819526	-0.50	9922829	79242165	7.35

“Category”	“As on 31.03.2018”			“As on 31.03.2019”		
	“Accounts”	“Amount”	“Growth (%)”	“Accounts”	“Sum”	“Growth (%)”
1. “Current Account”	199342	4040937	-8.63	161029	4301365	6.44
2. “Savings Bank”	9415269	54278462	12.69	10352531	62281711	14.74

<b>3.“Demand Deposit(1+2)”</b>	9614611	58319399	10.93	10513560	66583076	14.17
<b>3. “Term deposit”</b>	1131674	26755330	0.33	388945	25991547	-2.85
<b>“TOTAL”</b>	10746285	85074729	7.36	10902505	92574623	8.82

**Table:1.12.** Growth of different deposits of AGVB in last five FY.

**Source:** AGVB Annual report.

### 6.6. INITIATIVES TAKEN BY ASSAM GRAMIN VIKASH BANK:

<b>“IMPORTANT INITIATIVES TAKEN BY AGVB”</b>	
<b>“Special attention to weaker sections and SC/ST beneficiaries”</b>	i) “A good no. of hike is witnesses in terms of aiding both weaker and SC/ST sections of people”
<b>“Financing of Joint Liability Groups”</b>	i) “introduced in 2014 by NABARD” ii) “provides credits to small farmers”
<b>“Loans to minority community”</b>	i) “AGVB provides loans and credits at lower rate of interest” ii) “In the FY year 2018-19, a sum of ₹ 555219 thousand in the form of loan was disbursed to people of Minority Communities”.
<b>“Assistance to women beneficiary”</b>	i) “helping the underprivileged women” ii) “Steps like “Women Development Cell has participated in promoting Gender Sanitization Meets, awareness Camps. SHG promotion, fairs exhibitions etc. are taken to achieve it”.
<b>“Sarothi- The Start Up Assam”</b>	i) “On 21st March, 2017 AGVB announced this scheme” ii) “The scheme was the outcome of Memorandum of Understanding (MoU) between AGVB and Dept. of Industries & Commerce, Govt. of Assam” iii) “Proposed to financially help the young investors”
<b>“Financial assistance to Micro, Small &amp; Medium Enterprises (MSME)”</b>	i) “provide capital to the non-priority sectors” ii) “promotes entrepreneurship”
<b>“ Self Help Groups”</b>	i) “AGVB participated in promoting and credit linkage of SHGs within its area”



	ii) “AGVB has instituted 249115 SHGs till the year 31/03/2019”
“Recovering NPAs”	i) “Special recovery camps at every branches of AGVB” ii) “conducted by agencies, sponsor banks etc”. iii)“Some Cases are referred to Lok Adalats” iii) “can avail compromise settlement”
“Kisan Credit Cards (KCC)”	i) “introduced by GoI” ii) “No minimum balance and complex documents required”
“General Credit Cards (GCC)”	i) “AGVB initiated the Scheme during 2006-07”. ii) “provides credit aid to underprivileged part of society” iii) “no requirement for any complex documents and collaterals”
“Farmers’ Club	i) “agricultural credit to farmers and other borrowers”
“Rural Development and Self Employment Training Institute (RSETI)”:	i) “To help the unemployed rural youths” ii)“Training and expenses provided by AGVB”
“Opening of Basic Saving Bank (BSB) Accounts”	i) “During the FY 2018-19, 878863 BSB accounts have been opened by the bank”.

**Source:** AGVB Annual Report

**i)“Special attention to weaker sections and SC/ST beneficiaries”:** The fundamental objective of AGVB is to support credit needs of weaker sections of society. As such, from the very inception of AGVB it is considered vital to improve the poor living conditions of weaker sections of society along promoting lives of SC/ST. Following this, credit to underprivileged sections stood at Rs. 23682731thousand as on 31.03.2019 as against Rs. 2495782 thousand as on 31.03.2018. Whereas, during the year 2018-2019, an amount of Rs. 616711 thousand was hand out to SC/ST beneficiaries who also a part and comes under the category of weaker sections as against Rs. 1183662 thousand during the previous year.<sup>125</sup>

**ii) “Loans to minority community”:** The nature of regional rural banks is assisting the underprivileged classes and AGVB is one such RRB that was set up with the similar aim

<sup>125</sup> *Supra note 122.*

to reduce poverty as far as possible. In order to achieve it, the bank has indulged in reducing the social inequalities by promoting banking services to the backward societies and underprivileged ones. To aid these deprived sections, the AGVB provides finance in the form of loans and credits at lower rate of interest.

During the year 2018-2019, an amount of Rs. 555219 thousand in the form of loan was disbursed to people of Minority Communities.<sup>126</sup>

**iii) “Assistance to women beneficiary”:** To provide self sufficient living hood to assure security and independence to underprivileged women of Assam, the AGVB has taken various steps to provide credit and as a result the bank has taken important measures to enhance their assistance covering more and more number of women under various schemes.

**iv) “Financial assistance to Micro, Small & Medium Enterprises (MSME)”:** An initiative that was taken by the bank is to provide capital to the non-priority sectors to meet their ends. This was mainly to enhance and promote entrepreneurship in the state to promote development in industries. The bank thus provides various loans and credits to MSME to promote their establishments in the State.

During the F.Y. 2018-19, the Bank sanctioned fresh loans amounting to Rs.1312726 thousand to MSME sector covering 6795 accounts as against Rs.2613538 thousand covering 16664 accounts during the previous year. The outstanding advance in MSME was Rs.11594286 thousand as on 31.03.2019.<sup>127</sup>

Due to the ongoing pandemic, the Prime Minister has urged the citizens of the nation to involve in self reliant rather than following foreign goods. As such Assam also receives a good amount of finance for growing of MSME in the state. “An amount of total ₹933 crore have been provided as assistance to 28,000 MSME units in the state under the ₹3,00,000 crore package of MSME under the PM’s Covid-19 package” the special scheme which was announced by the prime minister was to make self-reliant in all

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<sup>126</sup> *Supra note 122.*

<sup>127</sup> *Id.*

sectors and as such the MSME sector needed financial assistance to come over the coronavirus pandemic, which resulted in loss in the last few months.<sup>128</sup>

**v) “Promotion and credit linkage of Self Help Groups”** :To eradicate poverty and promoting better sustainable livelihood options SHG are important that provides a way to link the market with the beneficiaries. This SHG provides both financial and technical assistance to the rural mass making them engaged in income generating activities.

From the beginning AGVB participated in promoting and credit linkage of SHGs within its area where it is required. The Bank has instituted 249115 SHGs involving 2864803 members till the year 31/03/2019.<sup>129</sup>

**vi) “Financing of Joint Liability Groups”**: AGVB has now made credits available to be accessed by those individuals who belong from lower economic class such as small marginal farmers and many others improving their lives better.

**vii) “Prime Minister’s Employment Generation Programme (PMEGP)”**: The PMEGP was initiated by the GoI with the purpose of generating more and more employment. During the period of 2018-2019, “the bank sanctioned 775 nos. of proposals under the scheme”.

**viii) “Financial Literary Awareness Programmes”**: The Bank participated in various programmes in promoting awareness regarding banking services to the underdeveloped sections. As per the annual Report of 2018-2019 of AGVB, “the Bank has held 2898 nos. of Financial Literacy Camps”.<sup>130</sup>

**ix) “Swami Vivekananda Assam Youth Empowerment (SVAYEM) Yojana”**: Bank has extended 2033 nos. of beneficiaries under Swami Vivekananda Assam Youth Empowerment (SVAYEM) Yojana having total sanction limit of Rs.232599 thousand upto 31.03.2019.<sup>131</sup>

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<sup>128</sup> PTI Guwahati, *MSMEs in Assam gets ₹ 933 cr. assistance under PM’s Covid-19 package: Sonowal*, The Hindu BL, June 30, 2020.

<sup>129</sup> *Supra note* 122.

<sup>130</sup> *Id.*

<sup>131</sup> *Id.*

x) **“Sarothe- The Start-Up Assam Scheme”**: The Govt. of Assam introduced a loan scheme called “Sarothe” or also called as “CM’s start-up fund scheme”. The objective of “Sarothe” is to end economic difficulties for young investors.

Under this scheme, “bank has extended 304 nos. of beneficiaries having outstanding balance of Rs.74277 thousand as on 31.03.2019”<sup>132</sup>

xi) **“Implementation of Pradhan Mantri Awas Yojana (PMAY)”**: “The Bank had executed a Memorandum of Understanding (MoU) with National Housing Bank (NHB) and has implemented the Pradhan Manti Awas Yojana (PMAY) scheme. Bank has extended 23 nos. of beneficiaries under the PMAY scheme having outstanding balance of Rs.21910 thousand as on 31.03.2019”.<sup>133</sup>

xii) **“Opening of Basic Saving Bank (BSB) Accounts”**: Initiatives like opening BSB accounts for helping the rural poor mass has been successfully done by the AGVB. During the financial year of 2018-19, 878863 BSB accounts have been opened by the bank.<sup>134</sup>

xiii) **“Rural Development and Self Employment Training Institute (RSETI)”**: The AGVB has set up five “RSETIs in Sonitpur, Bongaigaon, Jorhat, Kamrup (M) and Kamrup districts”. These RSETIs provides services to the unemployed rural youths from the time of the beginning of AGVB. During the period 2018-2109, 1966 nos. of candidates has enabled RSETIs trainings and out of these total, 944 nos. of youths have been settled during the year 2018-19.<sup>135</sup>

xiv) **“Farmers’ Club”**: The Bank launched “Farmers’ Clubs” to the farmers of Assam. The purpose behind Farmer’s Club is to issue interrupted flow of agricultural credit to farmers and other borrowers. Presently, AGVB has opened many “Farmer’s Club” and

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<sup>132</sup> *Supra note 122.*

<sup>133</sup> *Id.*

<sup>134</sup> *Id.*

<sup>135</sup> *Id.*

these are being actively look after by its respective branches. “As on 31.03.2016, as many as 564 no. of farmers’ clubs are functioning in the area of operation of the Bank”.<sup>136</sup>

**xvi) “General Credit Cards (GCC)”**: To uplift financially the weaker sections of Assam, the AGVB initiated a “General Credit Card Scheme during 2006-07”. Under this GCC, the AGVB issues credit aid to underprivileged part of society. The main feature of this scheme is that there is no requirement for any complex documents and collaterals. “During the period under review, Bank could issue 8833 no. GCCs”.<sup>137</sup>

**xvii) Micro Insurance**: AGVB has introduced micro insurance to the weaker sections availing them to enjoy the insurance services just as other commercial banks.

**xx) “Launching of PMSBY, PMJJBY and APY”**: AGVB has participated in providing many GoI schemes such as PMSBY, PMJJBY and APY from May, 2015. During the F.Y. 2018-2019 the Bank has enrolled 297142, 108904 and 24709 no. of beneficiaries under PMJJBY, PMSBY and APY respectively registering the highest enrolment in the State.<sup>138</sup>

**xxi) “To recover NPAs”**: From the inception of AGVB many recovery initiatives are taken from time intervals to improve the recovery mechanism of NPAs.

**xxii) “Kisan Credit Cards (KCC)”**: AGVB has provided KCC scheme initiated by GoI to aid the farmers and continuing its efforts to extend to many as far as possible. As on 31-03-2019, the outstanding advances under KCC were Rs.9823850 thousand against 250872 nos. of KCCs.<sup>139</sup>

**xxiii) “MoU with small farmers’ agribusiness consortium (SFAC) for availing credit guarantee under credit guarantee fund scheme against certain credit facilities granted by the bank to farmer producer companies (FPCS)”** : The GoI has organized a Fund in the name of Credit Guarantee Fund for Farmer Producer Companies (FPCs) with Small Farmers’ Agribusiness Consortium (SFAC) with the primary objective of

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<sup>136</sup> *Supra note 117.*

<sup>137</sup> *Id.*

<sup>138</sup> *Id.*

<sup>139</sup> *Supra note 122.*

providing Credit Guarantee Cover to Banks to enable them to provide collateral free credit to FPCs by minimizing their lending risks in respect of loans not exceeding 100.00 lakhs.<sup>140</sup>

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<sup>140</sup> *Supra note 119.*

## CHAPTER-7

### CHALLENGES AND ADVANCEMENTS IN ASSAM GRAMIN VIKASH BANK

RRBs are incorporated to ensure stability of credit supply to small and unbanked areas. Prior to RRBs in India, the “commercial and co operative banks” are established to facilitate credit services to the unbanked and regressive areas. However, the aim to provide better banking facilities did not meet up the expectations that were hoped in the beginning and as a result the plan to provide the best banking services to the rural and unbanked areas failed to achieve effectively. The rural people dependent on moneylenders extensively which in turn charged higher rate of interest on these poor peasants exploiting them totally. Even after the “commercial and co operative banks” started to expand its banking facilities to these unbanked and isolated areas the result was not satisfactory. The main objective of commercial banks always remained to extract higher profits and income and the officials working under these banks are not so familiar to the living condition and lifestyle of these rural people. This created a difficulty to approach these people and to ensure them to build trust in them. Thus to meet the various agricultural needs, the “Banking Commission in 1972” urged the establishment of RRB in India.

#### 7.1.PROBLEMS AND CHALLENGES OF “REGIONAL RURAL BANKS AND ASSAM GRAMIN VIKASH BANK”-

- 1) **Inadequate finance:** An inherent difficulty that lies is the lack of finance received by the RRBs. Most of the poor rural mass do not have this habit of saving credits for future neither they are any interested in opening bank account to save their deposits. This is due to their poverty and low per capita income. As a result RRBs had to approach NABARD for further refinance.<sup>141</sup>
- 2) **Insufficient deposits :** As the RRBs are low people’s bank that provides credits and loans only to the priority sectors and small agriculturists and such other small entrepreneurs belonging from backward classes it hampers in achieving surplus of

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<sup>141</sup> *Supra note 2.*

deposits. The weak and poor people do not have sufficient income on the other hand rich people are not allowed to get advances from RRBs. This results in less interest by the wealthy class to open bank accounts there. This is a huge drawback that is holding these RRBs in achieving greater amount of deposits

- 3) **Large overdues:** In RRBs it is common that more and weaker people are interested in loans and advances rather than depositing deposits. This creates an unequal balance of credits and deposits resulting in huge overdues and poor recovery of loan.
- 4) **Regional Imbalances:** The bank branches are operating mostly in a specific district within a state not enough to cover the entire backward regions completely. As a result there are still people left out to claim the rural banking services.
- 5) **Heavy loans:** Many RRBs are facing huge loans due to less recovery of loans from the customers. These customers being weak and poor people often fails to return the loans, moreover, less deposits and poor mechanism by their staff used in extracting the loans; no check on background of credit borrowers, all these leads to burden of heavy loans on RRBs.
- 6) **Ineffective in eradication of poverty:** RRBs are expected to eliminate the poverty to some extent but this now proves to be ineffective. Reasons include, “poor infrastructure, no marketing or less marketing strategies, lack of knowledge of customers such as low awareness about savings etc.”
- 7) **Minimum balance:** Schemes like KCC ensures customers operation of bank account without requiring keeping any minimum balance. Whereas, in reality, it still requires an amount to be kept as minimum balance. This leads to discontinuity to maintain the accounts by the poor customers.
- 8) **Non-performing assets:** NPA, a huge concern for RRBs. RRBs actively participate in advancing loans and credit to its customers but it is not same in case of recovering the credits from the customers. It is not expedite in case of recovery of NPAs.
- 9) **Lack of co ordination:** Lack of proper coordination between the RRBs and other financial institutions like commercial banks, NABARD and other co operative banks has imposed difficulty in proper functioning of these banks.



- 10) Illiteracy and lack of financial literacy:** One such challenge of the bank is to educate the illiterate and untrodden rural masses regarding the finance and banking services.
- 11) Insufficient employees:** Less no. of RRB employees is also causing a huge challenge in proper functioning of RRBs.
- 12) Govt. schemes:** Too many govt. schemes have been heaped on AGVB that made it somewhere incapable of working properly.
- 13) Poor working conditions:** In many districts of Assam, the infrastructure and offices of AGVB are in quite poor condition. A healthy environment is indeed needed for proper functioning of RRBs in Assam.
- 14) Lack of professionalism and efficient employees:** Lack of professionalism is maintained in RRBs as these banks are located in underdeveloped areas. Moreover with the growth of RRBs more efficient employees are needed to continue it efficiently.
- 15) Dependency on Sponsor Banks:** RRBs are more dependent on National Banks and other Spons. Banks that makes it less self sufficient and efficient.

## **7.2.ADVANCEMENTS OF ASSAM GRAMIN VIKASH BANK:**

- 1) Advancement of loans to priority sectors and majority credits and loans are availed in majority by weaker sections of society.
- 2) AGVB has opened a foundation in the name of “Assam Gramin Vikash Bank- Corporate Social Responsibility” (AGVB-CSR) with the aim to resolve and manage all the social welfare issues promoting social welfare. The trust has contributed towards enabling drinking water facilities, construction of public toilets, setting up of “Sulabh Sachalaya at SMK Civil Hospital under Nalbari district and many more”.
- 3) Every year a good number of skilled staffs and employees are provided by AGVB to serve the rural poor for which these workers are given various training programmes in and outside Assam.
- 4) A strong step is initiated towards complaints of customers. This is done by each bank branches. In order to offer best service to customers “Customer Service Committee”

has been set up in all AGVB branch. Moreover, AGVB to get closer with customers organized “Regional level customers” for better functioning in the future.

- 5) “Bank has complied with the provisions of the Banking Ombudsman Scheme”
- 6) Digital advancement had been achieved by AGVB in the few years and as a result a positive feedback is being encountered by the bank. Following are the digital services being served by the bank to its customers-
  - i)“Mobile Banking”: From F.Y. 2017-2018, the bank has facilitated mobile banking to its customers.
  - ii)“RuPay Debit Cards”: “Bank has been successfully issuing a number of variants of RuPay cards to its customers. In addition, EMV Chip and PIN based cards are also issued by AGVB in adherence to the RBI guidelines”.<sup>142</sup>
  - iii)“BHIM – Aadhaar based Merchant Payment – Issuer”: With the changing digital era, AGVB also moved towards cashless transaction. the Bank has approved Aadhaar Merchant Pay platform as issuer during the F.Y. 2017-18.<sup>143</sup>
    - iv)“Digital Transaction Data”: “E-COM introduced in September, 2017, Mobile Banking (Intra-Bank) introduced in December, 2017, IMPS introduced in February, 2018 and UPI introduced in March, 2018”.<sup>144</sup>
    - v)“PoS terminal”: “Bank has started providing PoS (Point of Sale) terminals to its merchant customer base from 20-10-2018 and has deployed a total of 34 nos. of PoS terminals till 31-03-2019”.<sup>145</sup>
    - vi)“Mobile Van Project”: “To promote digital transactions among the rural masses, Bank has successfully introduced 03 Numbers of Mobile Vans with NABARD Support for demonstration of various banking technologies in order to promote digital financial literacy among rural customers during the year”.<sup>146</sup>

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<sup>142</sup> AGVB, Annual Report 2018-19.

<sup>143</sup> *Id.*

<sup>144</sup> *Id.*

<sup>145</sup> *Id.*

<sup>146</sup> *Supra note 144.*

- 7) The Right to Information Act<sup>147</sup> after its enactment on Oct. 12, 2005, has been implemented by the Bank through its official website thus providing a depth analysis into the workings and growth of the bank.
- 8) The problem of transparency has resolved to some extent. From 2008, NABARD itself carries Statutory Inspection of the bank.
- 9) The bank has succeeded in attracting customers from different walks of life by extending various credit facilities for agriculture, SHG, Housing, business and other Govt. sponsored projects.
- 10) In recent years, AGVB has upgraded to full “Core Banking Solution” platform.

### **7.3. PROBLEMS OVERCAME BY THE REGIONAL RURAL BANKS:**

1) There was an issue that once arose regarding the promotion of seniority posts of Area Managers and Senior Managers of RRBs. Before the coming of Rule 3 of the Rules in the Regional Rural Bank act, 1976, all posts relating to seniority promotion of Area Managers/ Senior Managers were controlled by the circulars being furnished by the Union Govt. and the National Bank. Whereas the situation later on changed after an amendment is brought in the RRB by the RRB (Amendment) Act, 1987. Under the new amendment of RRB Act, clause (ba) subsection 2 of section 29 was introduced and hence, the Central Government was thus authorised to make Rules with respect to those matters that specially deals with the recruitment process of members of RRB.

#### **Case law: “B. V. Sivaiah & Ors vs K. Addanki Babu & Ors”<sup>148</sup>**

This case is related to the issue arose in promotions of senior officers of RRBs which was particularly based on circulars being published by Central Govt. and National Bank. Regarding that, appeals were being filed by two groups, such as the AP group (‘Andhra Pradesh) and the MP group (“Madhya Pradesh”). As such, the first group filed appeals contrary to the judgment of AP High Court on Sept. 23, 1994 in separate writ appeals. On the other hand, the second group filed appeals opposite to the judgments of the MP High Court. In the contravene announcement, the AP High Court and MP High Court have

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<sup>147</sup> The Right to Information Act, 2005, No. 22 of Parliament, 2005.

<sup>148</sup> B. V. Sivaiah & Ors vs K. Addanki Babu & Ors AIR 1998 INSC 337.

expressed that in order to accept the "seniority -cum-merit criterion" or of it is accepted then initially to contemplate a senior employee for the promotion in post then it is important to find out via test i.e. a) if there is a suitable senior employee b) if that senior employee retains minimal mandatory merits for holding the superior position, c) in case if the high employee is not found convenient then his next junior may be proven for the objective of Promotion.

**Judgement:** The aforesaid prospect has been accepted by the different RRBs and upgraded officials whose promotions have been annulled by the assailed judgments.

In this judgment various points and Rules are discussed-

1) Before the said judgment, for the appointee against the post of Area/SM in RRBs was administered by circulars published by the Union Govt. and the National Bank (NB in short). Through circular dated Oct. 10, 1987 sent to the DGM of the NB, the Central Govt. marked the criterion that was mandatory in the sense of promotion of Branch Managers to the post of AM/SM in RRBs to be solely based on "seniority - cum-merit".

2) The meaning of "seniority-cum-merit" has been defined In "State of Kerala & Anr. v. N.M. Thomas & Ors., 1976 (1) SCR 906". In the case, CJ. A.N. Ray has thus interpreted the yardstick of "seniority-cum-merit" as follows-

"With regard to promotion the normal principles are either merit- cum-seniority or seniority-cum-merit. Seniority-cum-merit means that given the minimum necessary merit requisite for efficiency of administration, the senior though the less meritorious shall have priority".

3) S. 17 of the RRB Act authorizes a RRB to assign such no. of officials and other officials as it can do or regards crucial as well as to regulate the terms and conditions of their appointment and service. Whereas S. 24 of the Act prescribes that while in the discharging its affairs, a RRB is mandatory to be governed by aforementioned directives as the Central Govt. may, after discussion with the NABARD ["hereinafter referred to as 'the National Bank'"], provide. U/S 29 of the Act, the Central Govt. is authorised to compose regulation, later deliberation with the NB and Spons. Bank, to implement provisions of the Act, through cl. (ba) of sub-sec. (2) of S. 29, added by the RRB

(Amend.) Act, 1987. Thus, there was inherent power entrusted to the Union Govt. to make Rules regarding fixture of the officers and other members of the RRBs. The Union Govt. by using the authority given u/s 29 read with S. 17 of the Act formulated the Rules that were issued by notice dated on Sept. 28, 1988.

4) After the Rules being introduced to promote senior officials on “seniority-cum-merit” procedure, previously the promotions of senior officers of RRBs which was based on circulars being published by Central Govt. and NB are discarded and above mentioned criteria of Court on “seniority-cum-merit” are to be followed in order to promote AM or SM of RRBs.

2) A challenging phase arrived at a time when employees of RRBs were not allowed to enjoy “equal pay for equal work” for their respective work. They were deprived of equal remunerations and other special allowances as compared to Nationalised Commercial Banks (shortly as NCB). It was assumed that RRBs are established mainly to forward credit assistance to the rural and semi-urban and other backward areas and most of their work involves in enhancing rural development rather with lesser priority towards its profitability, hence it was considered that the working and function of RRBs employees, staffs and officers differ from Nationalised bank’s officers and employees. As a result it created a misconception and partiality towards the salaries and wages of RRB’s employees and staffs. Moreover, the pay and allowances mismatched with other NCB though they come under the same Banking Regulation Act, 1949.

**Case: “All India Regional Rural Banks ... vs Union Of India And Other”<sup>149</sup>**

The writ petition was initially filed by two petitioners. Petitioner 1 belonged to India Regional Rural Banks Employees' Association which is a trade Union having as its members about 60,000 employees working in various RRBs and 2 petitioner second petitioner who is an employee in the services of the 3rd respondent-Bank which is one of the RRBs established in the Country, filed the writ petition for-

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<sup>149</sup> All India Regional Rural Banks vs Union Of India And Other AIR 2002 INSC 117.

- a) failure of the respondents in implementing the 6th Bipartite Settlement pursuant to the NIT award and
- b) action of the 2nd respondent in appointing the 5th respondent- “Committee on salaries and allowances of employees of RRBs”,
- c) Raising questions on the suggestions of the 5th respondent-Committee.

**Background:** The employees of RRBs continually requested first respondent to give its consent to salary and other perks to RRBs on parity with the “employees and officers of Nationalised Commercial Banks” (shortly as NCB). When the said request was not considered by the Central Govt. on behalf of them, the first petitioner filed Writ Petition along with other writ petitions connected with it which included another set of RRB employees before the SC of India One G.S. Kaushik also joined the first petitioner. In the said writ petitions, directions were sought to the 1st, 2nd and 4th respondents to fix the profits or pay of the employees of RRBs in equality with the laid down principles of “equal pay for equal work”.

The SC directed the Central Govt. to solve the disagreement by handing over the issue to a Tribunal within 4 weeks from the date of the order. Accordingly the Central Govt. appointed a NIT consisting of “ Shri Justice S. Obul Reddi, Retired CJ. of Andhra Pradesh as its Chairman”. The NIT gave its award on 30-4-1990 holding that the “duties and functions of the officers and other employees regarding posts of rural branches of Spons. Banks and that of the Commercial Banks and RRBs carry on similar banking business and participate in the development of rural economy as partners in the rural development”. The NIT awarded “equal pay” to the RRB employees as compared to the pay in Spons. Banks. Thereafter the Govt. of India constituted an Equation Committee( EC in short) on 5-10-1990 for the purpose of “equal pay for equal work” to the employees of RRBs in comparison with the Spons. Banks employees. In accordance with the directions given in the award, the EC submitted their recommendations on 16-Jan-1991.

The 1st respondent-UoI implemented the award of NIT to pay “equal pay for equal work” to the RRBs employees. Later, the 1st respondent appointed a Committee to submit “service regulations, recruitment and promotion policy and any other matter relating to the implementation of any other matter of the NIT Award and the report of the EC”. The

Committee submitted their report on 17-2-1992. Thereafter, as instructed by the 1st respondent-NABARD issued a letter on 20-3-1993 directing various Grameen Banks for implementation of the award of the Tribunal and when there was enormous delay in implementing certain benefits pursuant to the NIT Award, the first petitioner herein along with Sri G.S. Kaushik filed an interlocutory application before the SC by a writ petition seeking directions to the respondents to forthwith appropriately implement full achievement of the NIT Award as well as requesting numerous remedies against objections arising out of EC Report and “report of the Working Group”.

**Judgement:** The SC held that the 2nd respondent-RBI, has no independent power to constitute the 5th respondent Committee by the order dated November 5, 1996 for the purpose of examining the pay structure of the employees and officers or RRBs u/s 17(1) read with S. 24 of RRB Act, 1976.

The SC allowed the writ petition quashing the appointment of the 5th respondent-Committee and the report submitted by the 5th respondent-Committee by issue of writ of certiorari and a writ of mandamus is issued to the respondents directing them to “pay, salary and allowances with effect from 1-11-1992 to all the employees of RRBs in accordance with the pay, allowances and benefits implemented in respect of employees of NCBs” as per the Memorandum of Settlement and as per Wage Revision given to the officers of NCBs.

3)The RRB employees raised the issue that under the various allowances being enjoyed by the NCB, the benefit of pension is also included there and as such the RRB employees demanded for pensions as they are entitled to claim “equal pay for equal work” under the memorandum of settlement. However, the Union Govt. showed its disagreement in complying the directions of SC and NIT which resulted in a long struggle to be faced by the RRB members.

**Case Law: “Gramin Bank Pensioners Samiti & Anr. Union of India”<sup>150</sup>**

This writ petition was filed by the petitioners who are “ registered society of retired members of RRBs in the state of Rajasthan”. The writ petition was filed before the SC of India under A. 32 of Cons. of India .The petitioners claimed the following relief in their petition.

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<sup>150</sup> Civil writ petition No. 4366/2005.

- a) to direct the respondents to implement the settlement that was fixed on 29/10/1993 to allow pension schemes to the retired employees of the RRBs,
- b) to pass any further order by the SC if it thinks proper in the petitioner's case,
- c) to award the cost of the writ petition.

In this petition however the SC directed the petitioners to approach the respective HC to redress and settle their issues. Accordingly, the petitioners reached the Rajasthan HC and raised the concern before it.

**Judgement:** The Hon'ble High Court after hearing the Counsel's opinion gave the following judgement-

- a) According to the HC, the judgment is given on the basis of judgment passed by the Karnataka HC in "All India Regional Rural Banks Officers Federation's Case" after the judgment of the SC in "South Malabar Gramin Bank's Case".
- b) Hon'ble HC expressed that in respect of the petitioner's case, the decision which was undertaken by the NIT and the SC was to bring equality in pay, allowances and other benefits to the employees of the RRBs as compared to other NCB. Thus, pensionary benefits also come under the other benefits.
- c) The HC also expressed that if any pension scheme can be exchanged with the Employees Contributory Provident fund and the scheme thereunder then it would be of greater beneficial to the employees of RRBs. However, the Court said that it depends on Central Govt. and for this reason an order is to be issued by the Central Govt.
- d) To restrict discrimination against the petitioner Samiti after following the said order of the SC in "South Malabar Gramin Bank's Case".
- e) Final judgment was given on behalf of the petitioners and the respondents are directed to implement the pension scheme and also ordered to speedily execute the implementation process within 6 months.



**Case Law: “Union of India v. Gramin Bank Pensioners Samiti and Anr.”<sup>151</sup>**

In this case, the Union of India filed before the SC against Rajasthan HC’s order whereby the HC of Rajasthan had allowed the petition of the *Gramin Bank Pensioner’s Samiti* (Respondent) to execute a pension scheme for the employees of RRB on lines similar to verdict of HC of Karnataka in the case of “*All India Regional Rural Bank Employees’ Association & Ors. Vs. Union of India & Ors*”.

**Background:** The respondent, “a registered society of retired employees of the RRBs in the State of Rajasthan”, filed a writ petition of mandamus before the SC as “*Bank Pensioners Samiti & Anr. Union of India*”, where the SC directed them to appear before the concerned HC. In “*Gramin Bank Pensioners Samiti & Anr. Union of India*”, the HC of Rajasthan allowed the writ petition of the respondent based on the judgment given by the SC in the case of “*South Malabar Gramin Bank Vs. Co-ordination Committee of South Malabar Gramin Bank Employees’ Union & South Malabar Gramin Bank Officers’ Federation & Ors*”. In that particular two writ petition, the SC explicitly held that when there arrives a “bipartite settlement between the management and employees of the Spons. bank and as per the NIT judgment” it thus becomes mandatory for the Central govt. to take such decision that gives effect to uniformity relating to salaries or allowances of NCBs with employees of RRBs.

**Judgement:** The SC in this case through its Two-Judge Bench Court has considered the decision and order of Rajasthan HC in the case of *Union of India v. Gramin Bank Pensioner Samiti & Ors.* “The SC has directed the UoI to implement the impugned judgment in respect of all the RRBs expeditiously and at any rate within three months from the date of production of a copy of this judgment”.

5)An issue arose when even after directions were passed to implement the benefits provided in memorandum of settlement. The RRBs Officers federation stood against the injustice and delay caused by the UoI and overcame the challenge that stood before them.

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<sup>151</sup> D.B. CIVIL SPECIAL APPEAL [W] No. 2021/2011.

**Case: “A.I. Reg. Rural Bank Officers Fed. ... vs Govt. Of India & Ors.”<sup>152</sup>**

In this civil appeal Case, the applicants raised the issue relating to the circular passed by the GoI, the Ministry of Finance (Banking Division), which is contrary to the orders of the judgment on 31.1.2001 in “*South Malabar Gramin Bank v S.M.G.V. Employees Union 2001 4 SCC 101*”. The applicants prayed that such notification should be in conformity with the judgment passed by the SC and NIT in “*South Malabar Gramin Bank v S.M.G.V. Employees Union*”.

**Background:** The issue that arose involved whether any bipartite settlement between the employees of NCBs and the management gives outcome to similar pay, salaries and other bonus to the employees of RRB. In this particular issue, the management and the UoI strictly expressed that whenever there arrives a settlement between the management and employees of the Spons. Bank then the Central Govt. possess the authority to revise the salary structure or other benefits by exercising under S. 17 of the RRB Act, 1976. The employees on the other hand, expressed that if the central Govt. determines then it should be based on Report of Justice Obul Reddi Tribunal. Thus, the Central govt. is bound to take such decision that results in “equal pay for equal work” to the RRBs employees as compared to the NCBs.

**Judgment :** The SC in “*All India Regional Rural Bank Officers Federation verses Government of India & others*”, decided on 07.03.2002 held that Central Govt. has authority to determine the pay structure of the RRB employees u/s 17(1) of the RRB Act, 1976 and in doing so the Central Govt. is mandated to establish equality between the pay structure of the NCB employees and the RRB employees. Moreover, Interlocutory Applications and Contempt Petitions that arose in this case were also disposed of accordingly.

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<sup>152</sup> Writ Petition No. 20034/2003.

## CHAPTER-8

### CONCLUSION AND SUGGESTION

The RRBs are established following a sole target of advancing credits to the low economic class and priority sectors and has achieved triumph in introducing the concept of “rural banking” to unbanked and backward areas. The lone complication lies in ascertaining how the future consequences would be tackled by these rural banks. More and more focus needs to be inclined in solving the ongoing problems to serve the better purpose of RRBs. Besides the numerous issues, these RRBs proved beneficial to the “small and marginal farmers, village and cottage industries” in facilitating finance and eradicating poverty to some extent. Nevertheless better opportunities and schemes are needed to diminish it fully and thus it depends on the continuous efforts to be implemented by the higher authority.

#### **8.1. CONCLUSION:**

RRBs are formed to boost the efforts and hard work of co-operative and commercial banks by including both of its banking features within it. Apart from the RRBs, a person belonging from rural areas can approach other banks and non-financial institutions such as moneylenders, family, relatives etc. The problem arises when these banks other than RRBs and co-operative rural banks, they charge high rate of interest which is not feasible to be returned by the poor farmers and needed small entrepreneurs in short period of time. In the same manner, loans from non-institutional institutions involves uncertain amount of rate of interest which proves detrimental to the poor uneconomic classes.

With the objective to deliver and promote banking services in the rural regions these regional rural banks are established and hence in order to continue this, these RRBs came across various difficulties throughout its journey. As the RRBs have passed through various stages ranging from extension, declining, renovation and consolidation they are now considered as an inherent fragment of credit delivery system in the country.

Having the largest network of rural bank branches in Assam, the AGVB is expected to serve the rural masses of Assam. The banking services provided by these particular bank

is proving itself why more and more branches are opening in rural regions and this indicates a positive sign of the capability of Assam Gramin Vikash Bank to attain the directives set up by the RRB Act. It is also expected that may be in the coming future it turns out to be one of the apex RRB of the country.

The overall paper is based on the rise and expansion of RRBs as a principal messiah that was established as the “poor man’s bank” or “low cost banks” with the mere purpose to reduce the bridge gap between rich and poor. The goal is to end the deprived poor rural and needy people belonging from lower sections of society.

From the entire paper, following important points are analysed –

- i) RRBs are succeeded in imparting credits and all essential banking services to the rural mass.
- ii) Consolidation and recapitalisation processes provided support to the struggling RRBs in recovering huge economic losses.
- iii) Agencies such as Central Govt. State Govt., RBI, Sponsor banks and NABARD perform an indispensable role in effective RRB operations.
- iv) Profits and gains of RRBs are not constant. It varies with each F.Y.
- v) Profitability is accumulated from the priority sectors which majorly composed of poor weaker mass whereas less profit is earned from non-priority sectors.
- vi) RRBs acquire refinance both in short term and long term from NABARD.
- vi) Current RRBs in India are 45 from 196(in the beginning) and “Assam Gramin Vikash Bank” is functioning as the leading bank in entire NE region.
- vi) RRBs are required to keep 9% CRAR in RBI. In recent 5 F.Y. most RRBs sustained to keep it.
- vii)AGVB shows a good performance in lending credits and other services, signs of self sufficient to some extent; no refinance was collected by the bank from NABARD in the F.Y. 2018-19.
- viii) The concept of “equal pay for equal work” is applied in RRBs.
- ix) Huge economic debts and low deposits with mild or null profits posing hardest obstacles in the productive functioning of RRBs.

x)RRBs do not participate in commercial banking business. In other words, RRBs are managing to perform authentic rural bank even today.

xi) AGVB has imparted positive outcome in terms of lending credits and loans. As per 31/3/2017 & 31/3/2018 Annual report of AGVB, it is estimated that more than 60% credits and loans are provided to the weaker sections.

xii) AGVB accomplished in granting 75% of loans and advances to the priority sectors fulfilling the guidelines provided by RBI.

xii)AGVB like other RRBs in India is not solely concentrated in a particular rural region.

xiii) RRBs from time to time got amalgamated to minimize high up tariffs, optimize the use of technology, region of working and grow their exposure.

## **8.2. SUGGESTION:**

- 1) The traditional method followed by RRBs needs to be changed with the changing times. It should adapt to the rising circumstances.
  - a) The RRBs should change its working policy. It should not concentrate only towards providing banking services; moreover it should allow a part of it in making profits so that problems like inadequate finance of RRBs and fewer deposits are solved.
  - b) The banks should allow a considerable sum of their total advances to the rich sections so that the problem of inadequate finance of RRBs comes to end.
  - c) To increase the interest rate on deposits of RRBs to attract and encourage more people towards saving and relaxations be made in advancing loans to other non priority sectors.
- 2) Most RRBs are located in core rural regions where less employees work. No supervision is carried out there to look after the workings of the employees .This leads to bureaucratic behavior of the employees towards the weak people resulting in less participation by these people. Bureaucratic and arrogant behavior of the employees and staffs towards the poor people should amount to penal actions.
- 3) RRBs should collaborate with co operative banks in lending credits to other priority and non priority sectors.

- 4) A particular short term loan or credit with lesser rate of interest for personal needs or education of poor children belonging from poor economic background should be initiated by the bank.
- 5) Most of the RRBs don't bother to check the background of the lenders. Therefore instead of checking the background some local people apart from the employees, staff and members expertise in local language, its area and its people should be appointed by the banks to make the local people understand the cons and profits of loans and the consequences of nonpayment before advancing loans to such customers.
- 6) A digital financial awareness programme to be sponsored by the respective RRBs through volunteers and students of both rural and urban sections to educate the old, young and adult farmers to opt for digital banking services.
- 7) Instead of concentration on opening bank branches in particular districts, it should be reversed. New RRB bank branches should be open based on a survey on the no. of poor people living in different areas.
- 8) Regions of NE especially Assam suffers terribly by flood each and every year. The RRB as poor people's bank should come forward to help the region by providing loans on Assam Flood Bank with lesser rate of interest where distressed farmers and agriculturists can come forward for the benefits of banking services.
- 9) Policy decisions should be liberal and more policy making decisions should be in the hands of RRBs.
- 10) RRBs should step forward to collect resources from other Human Resource Development programs and schemes to improve its inherent efficiency.
- 11) Changes in HR department are required. More Young and talented banker's opinion should be noted and implemented for its long run.
- 12) To go along with the competitive world and to achieve the goal it must adhere to self sufficient, less dependent on NABARD and Sponsor Banks and cope up with required expertise in the changing scenario.
- 13) A good number of employees to be recruited every year and emphasized should be on appointing more local employees.
- 14) Further amalgamations of RRBs should be restricted within the country and more attention should be given in strengthening self reliant RRBs.

- 15) RRBs required to be allowed to be sponsored by other institutions besides Sponsor banks.
- 16) Though digitalization has been adopted by RRB yet its growth is quite slow as compared to other banks. Insufficient numbers of ATMs are observed within both urban and rural regions. Therefore, a strong fast forward change is required in terms of introducing more and more ATMs and subjection of digital knowledge to the uneducated poor mass.

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