Chapter – 5
Regional Rural Banks

Introduction

5.01 Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1976 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilize financial resources from rural / semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural labourers and rural artisans. The area of operation of RRBs is limited to the area as notified by GoI covering one or more districts in the State.

5.02 RRBs are jointly owned by GoI, the concerned State Government and Sponsor Banks (27 scheduled commercial banks and one State Cooperative Bank); the issued capital of a RRB is shared by the owners in the proportion of 50%, 15% and 35% respectively.

Reform Process

5.03 RRBs started their development process on 2nd October 1975 with the formation of a single bank (Prathama Grameen Bank). As on 31 March 2006, there were 133 RRBs (post-merger) covering 525 districts with a network of 14,494 branches. RRBs were originally conceived as low cost institutions having a rural ethos, local feel and pro poor focus. However, within a very short time, most banks were making losses. The original assumptions as to the low cost nature of these institutions were belied.

5.04 When the reform process in the banking sector was initiated, RRBs were taken up for a close look. The GoI in consultation with RBI and NABARD started the reform process thru' a comprehensive package for RRBs including cleansing their balance sheets and recapitalising them. Extant lending restrictions were removed and space and variety available for investment of their surplus funds was expanded. Simultaneously, a number of human resource development and Organisational Development Initiatives (ODI) were taken up by NABARD with funding support of the Swiss Development Corporation (SDC) and with the tools of training and exposure visits, ODI, technology support, computerization and use of IT, system development, etc. for business development and productivity improvement. By end March 2005, there was a remarkable improvement in the financial performance of RRBs as compared to the position prevailing in 1994-95. The number of banks reporting profits went up to 166 of the 196 RRBs. As on 31 March 2006, of the total 133 RRBs (post merger), 111 posted profits and 75 of these RRBs were sustainably viable organisations having no accumulated losses as also posting current profits.

5.05 GoI initiated the process of structural consolidation of RRBs by amalgamating RRBs sponsored by the same bank within a State as per the recommendations of the Vyas Committee (2004). The amalgamated RRBs were expected to provide better customer service due to better infrastructure, computerization of branches, pooling of experienced work force, common publicity / marketing efforts, etc. and also derive the benefits of a large area of operation, enhanced credit exposure limits and more diverse banking activities. As a result of the amalgamation, the number of RRBs was reduced from 196 to 133 as on 31 March, 2006 and to 96 as on 30 April 2007. Thus, under the amalgamation process, 145 RRBs have been amalgamated to form 45 new RRBs.

District Coverage

5.06 RRBs covered 525 out of 605 districts as on 31 March 2006. After amalgamation, RRBs have become quite large covering most parts of the State in many cases. Assam Gramin Vikas Bank, an amalgamated RRB, covers 25 districts, the highest in the country, while five other amalgamated RRBs cover 10 or more districts each. However, 40 RRBs covered two districts and 16 RRBs covered a single district each in 2005-06. Increased coverage of districts by RRBs makes them an important segment of the Rural Financial Institutions (RFI) for financial inclusion.

Branch Network

5.07 The number of branches of RRBs increased to 14,494 as on 31 March 2006 from 13,920 branches as on 31 March 1989. The network of the 45 amalgamated RRBs (as on April 2007) was quite large and diverse varying from 85 to 680 branches. The Uttar Bihar KGB, an amalgamated RRB, has 680 branches, followed by Baroda Eastern UPGB with 539 branches. The branch network of stand-alone RRBs varied between 8 and 242 as on 31 March 2006.

Key Performance Indicators

5.08 Reforms introduced in RRBs by GoI in consultation with RBI and NABARD have yielded positive results in respect of key performance indicators, as indicated under :

Key Performance Indicators : RRBs

Amount Rs. crore

Sr. No	Indicator	31.03.2004	31.03.2005	31.03.2006
1	No. of RRBs	196	196	133
2	No. of districts covered	518	523	525
3	No. of branches	14446	14484	14494
4	No. of staff	69249	68912	68629
5	Owned funds	5438	6181	6647
6	Deposits	56350	62143	71329
7	Borrowings	4595	5524	7303
8	Investments	36135	36761	41182
9	Loans outstanding	26114	32870	39713
10	Credit-deposit (CD) ratio	46%	53%	56%
11	Loans issued	15579	21082	25427
12	No. of RRBs having accumulated losses	90	83	58
13	Accumulated losses	2725	2715	2637
14	No. of RRBs in profit	163	166	111
15	Net NPA (%)	8.55%	4.84%	3.99%
16	Recovery (%) (as on 30 June)	73%	78%	80%
17	Per branch productivity	5.71	6.56	7.66
18	Per staff productivity	1.19	1.38	1.62

The following trends can be highlighted :

- 111 RRBs out of total 133 registered profit in the year 2005-06.

- CD Ratio has been increasing from 46% on 31 March 2004 to 53% on 31 March 2005 and further to 56% on 31 March 2006.
- Recovery percentage has been improving from 73% during 2003-04 to 80% during 2005-06.
- Consequently, net NPAs have declined from 8.55% on 31 March 2004 to 3.99% on 31 March 2006.
- Loans disbursement registered an impressive 35% annual growth in 2004-05 and 21% in 2005-06.
- Per branch productivity has increased from Rs. 5.71 crore on 31 March 2004 to Rs. 7.66 crore on 31 March 2006.
- Per staff productivity has increased from Rs.1.19 crore on 31 March 2004 to Rs.1.62 crore on 31 March 2006.
- There has been a decline in the total number of staff.

Performance under "Doubling of Agriculture Credit" : RRBs

5.09 More importantly, the performance of RRBs under GoI's initiative on doubling of agriculture credit in three years (from base year 2003-04) and greater coverage of small and marginal farmers, have been impressive. They disbursed agriculture loans of the order of Rs. 12,404 crore during 2004-05 registering a phenomenal annual growth of 64% against the targeted 30%. During 2005-06, agriculture credit flow stood at Rs. 15,223 crore with a growth of 23%. Thus, RRBs have achieved the target of doubling of agriculture credit in 2 years. RRBs financed 18.58 lakh new farmers in 2004-05 and another 17.03 lakh new farmers in 2005-06.

RRB's Potential Role in Financial Inclusion

5.10 Post-merger RRBs represent a powerful instrument for financial inclusion. Their outreach vis-à-vis other scheduled commercial banks particularly in regions and across population groups facing the brunt of financial exclusion is impressive, as observed from an analysis of Basic Statistical Returns of the RBI and indicated in the following paragraphs. With merger infusing the much needed financial strength in RRBs coupled with the local feel and familiarity they command, RRBs are in a unique position to play a decisive role in financial inclusion.

Outreach

5.11 In rural areas, RRBs account for a substantial 37% of total offices of all scheduled commercial banks. In semi-urban areas, their share comes to 15%. It goes without saying that exclusion is more severe in rural areas.

Offices of Scheduled Commercial Banks -
Population Group and Bank Group-wise (March 2005)

Bank group	Rural offices		Semi-urban offices		Urban / metro offices		Total	
	No.	% to total	No.	% to total	No.	% to total	No.	% to total
RRBs	11824	**37**	2284	15	537	2	14645	21
SCBs other than RRBs	20143	63	13335	85	21846	98	55324	79
Total	31967	100	15619	100	22383	100	69969	100

Manpower Deployment

5.12 91% of the total workforce in RRBs is posted in rural and semi-urban areas as compared to 38% for other scheduled commercial banks (table below) . Even in absolute terms, out of a total workforce of 179,423 deployed by all scheduled commercial banks in rural areas, RRBs share is 25% (45,062). This is significant considering that at all India level, manpower of RRBs constitute only 7% of the total manpower of all scheduled commercial banks.

Distribution of Employees of Scheduled Commercial Banks (March 2005)

Bank group	Total employees	% of employees posted in rural branches	% of employees posted in semi-urban branches	% of employees posted in urban / metro branches
RRBs	65599	69	22	9
SCBs other than RRBs	834834	16	22	62
Total	**900433**	**20**	**22**	**58**

Savings Mobilisation

5.13 At all India level, RRBs account for 12% of all deposit accounts of scheduled commercial banks and a meagre 3.5% of deposit amount. However, in rural areas, RRBs share in deposit accounts is a significant 31% and that in deposit amount 19%. This shows that the average deposit amount is lower in RRBs than other commercial banks, thereby implying RRBs' better reach to small depositors.

Deposits of Rural Branches of Scheduled Commercial Banks - Bank Group-wise (March 2005)

Bank group	No. of accounts		Deposit amount	
	No. ('000)	% to total	Amount (Rs. cr.)	% to total
RRBs	43540	31	40957	19
SCBs other than RRBs	98368	69	172147	81
Total	**141908**	**100**	**213104**	**100**

5.14 If we include semi-urban areas for both RRBs and scheduled commercial banks, RRBs' share in deposit accounts and amount stands at 21% and 11% respectively.

Deposits of Rural / Semi-urban Branches of Scheduled Commercial Banks - Bank Group-wise (March 2005)

Bank group	No. of accounts		Deposit amount	
	No. ('000)	% to total	Amount (Rs. in cr.)	% to total
RRBs	55165	21	56111	11
SCBs other than RRBs	211941	79	452678	89
Total	**267106**	**100**	**508789**	**100**

Credit Disbursed

5.15 At all India level, RRBs account for 18% of loan accounts of all scheduled commercial banks and 3% of loans outstanding. However, in rural areas the share of RRBs in loan accounts is an impressive 38%. More significantly, despite having 38% of all loan accounts, RRBs account for only 21% of total credit outstanding in rural areas, implying thereby their better reach to small borrowers.

Credit Disbursed by Rural Branches of Scheduled Commercial Banks - Bank Group-wise (March 2005)

Bank group	No. of accounts		Credit outstanding	
	No. ('000)	% to total	Amount (Rs. in cr.)	% to total
RRBs	10913	38	23017	21
SCBs other than RRBs	18155	62	86959	79
Total	**29068**	**100**	**109976**	**100**

5.16 If semi-urban branches are included, the share of RRBs in credit accounts and amount outstanding is of the order of 29% and 13% respectively.

Credit Disbursed by Rural and Semi-urban Branches of Scheduled Commercial Banks - Bank Group-wise (March 2005)

Bank group	No. of accounts		Credit outstanding	
	No. ('000)	% to total	Amount (Rs. cr.)	% to total
RRBs	13677	29	30546	13
SCBs other than RRBs	33594	71	210071	87
Total	**47271**	**100**	**240617**	**100**

5.17 Both deposit and credit data indicate that RRB branches in rural areas have performed better in relation to other scheduled commercial bank branches. However, RRBs' share comes down significantly when data for both rural and semi-urban areas are considered. This could be due to the fact that branches of other scheduled commercial banks located in semi-urban areas disburse considerable loans in rural areas also. This is significant from the point of view of financial inclusion as rural branches are closer and more active in extending outreach to remote and interior villages. Viewed from this angle RRBs are particularly well placed to achieve the goal of financial inclusion.

Outreach across Regions

5.18 The table below points to RRBs' significant presence in North-Eastern, Eastern and Central Regions which manifest financial exclusion of a high order. Of all the scheduled commercial banks, RRBs account for 34% of branches in North-Eastern, 30% in Eastern and 32% in Central Regions whereas their presence is significantly lower (9% to 17%) in other regions. The data points to the fact that as an institutional group, RRBs are best suited to take up the leadership role in financial inclusion across priority areas in States of North Eastern, Eastern and Central Regions featuring high levels of exclusion.

Offices of Scheduled Commercial Banks - Region- and Bank Group-wise (March 2005)

Regions	RRBs		Other SCBs		Total
	No.	% of total in the region	No.	% to total in the region	
Northern	1937	17	9627	83	11564
North-Eastern	659	**34**	1283	66	1942
Eastern	3617	**30**	8594	70	12211
Central	4545	**32**	9451	68	13996
Western	982	9	9912	91	10894
Southern	2905	15	16457	85	19362
Total	**14645**	**21**	**55324**	**79**	**69969**

Savings Mobilisation across Regions

5.19 Although RRBs account for only 12% of total number of deposit accounts at all India level, their share is significantly higher (18% to 29%) in the North-Eastern, Eastern and Central Regions where major interventions are required for financial inclusion. Further, the share of RRBs in a region in terms of no. of accounts is significantly higher than in terms of amount of deposits in the same region. This points to the fact that they basically cater to small depositors or the small depositors are more inclined towards RRBs.

Deposits of Scheduled Commercial Banks - Region- and Bank Group-wise (March 2005)

Regions	No. of accounts ('000)		Amount (Rs. crore)	
	RRBs	Other SCBs	RRBs	Other SCBs
Northern	5570 (7%)	75157 (93%)	8225.26 (2%)	402179.85 (98%)
North-Eastern	**3015 (29%)**	**7327 (71%)**	**2950.09 (11%)**	**24850.91 (89%)**
Eastern	**13085 (18%)**	**60868 (82%)**	**14400.73 (7%)**	**194611.28 (93%)**
Central	**20528 (22%)**	**71782 (78%)**	**20651.99 (9%)**	**198854.37 (91%)**
Western	3271 (4%)	76390 (96%)	3348.75 (1%)	489284.78 (99%)
Southern	12219 (9%)	117581(91%)	11870.08 (3%)	375585.96 (97%)
Total	**57688 (12%)**	**409105(88%)**	**61446.90 (4%)**	**1685367.15 (96%)**

Credit Disbursed across Regions

5.20 RRBs account for about one third of total number of credit accounts in North-Eastern, Eastern and Central Regions as against only 18% at all India level as detailed in the Table below. Further, the average loan amount disbursed by RRBs is significantly less than by other scheduled commercial banks. In North-Eastern Region, RRBs account for 36% of loan accounts but only 13% of the outstanding loan amount. For Eastern Region, the respective shares are 35% and 6% and for Central Region they are 31% and 10%. It is obvious, RRBs command better outreach and level of comfort for small borrowers.

Credit of Scheduled Commercial Banks – Region & Bank Group-wise (Mar '05)

Regions	No. of accounts ('000)		Outstanding amount (Rs. crore)	
	RRBs	Other SCBs	RRBs	Other SCBs
Northern	967 (12%)	7043 (88%)	4091.03 (2%)	240118.72 (98%)
North-Eastern	**489 (36%)**	**886 (64%)**	**1218.26 (13%)**	**8514.40 (87%)**
Eastern	**3590 (35%)**	**6575 (65%)**	**6147.17 (6%)**	**88943.56 (94%)**
Central	**3617 (31%)**	**8086 (69%)**	**8577.20 (10%)**	**80969.11 (90%)**
Western	659 (6%)	11233 (94%)	1696.19 (-)	409595.05(100%)
Southern	4845 (14%)	29160 (86%)	10958.97 (4%)	291638.27 (96%)
Total	**14167 (18%)**	**62983 (82%)**	**32688.82 (3%)**	**1119779.11 (97%)**

Self Help Groups - Bank Linkage

5.21 The microfinance services provided through SHG - bank linkage has so far been the most successful initiative in financial inclusion. Therefore, an analysis of RRB's involvement in the SHG movement will be an important indicator of the kind of mandate which RRBs could be given for further widening and deepening of financial inclusion.

5.22 Of the total 22.38 lakh SHGs credit linked by the banking industry as on 31 March 2006, 33% linkages were done by RRBs as detailed in the Table below. This is impressive by any standard. More significantly, the more backward a region is, the greater is the share of RRBs. In North-Eastern Region, the share is 56%, in Central Region it is 48% and in Eastern Region it reaches 40%.

5.23 Also in terms of bank loans provided cumulatively until March 2006 to SHGs, the share of RRBs is an impressive 29% with higher shares in North-Eastern, Eastern and Central Regions. State-wise particulars are indicated in Annexure II.

SHG - Bank Linkage : Cumulative No. of Groups Linked - Region-wise Participation by RRBs Versus Other Banks (March 2006)

Regions	No. of SHGs credit linked		
	by RRBs	by all banks (including coop.)	% by RRBs
Northern	45772	133097	34
North-Eastern	35108	62517	**56**
Eastern	159652	394351	**40**
Central	128390	267915	**48**
Western	34424	166254	21
Southern	336678	1214431	28
Total	**740024**	**2238565**	**33**

SHG - Bank Linkage : Cumulative Bank Loans - Region-wise Participation by RRBs Versus Other Banks (March 2006)

Regions	Cumulative bank loans (Rs. in crore)		
	By RRBs	By all banks	% by RRBs
Northern	125.64	398.58	32
North-Eastern	57.09	165.70	34
Eastern	367.72	935.42	39
Central	352.14	805.00	44
Western	116.11	525.14	22
Southern	2303.44	8567.69	27
Total	**3322.14**	**11397.53**	**29**

RRBs as Self Help Promotion Institutions (SHPI)

5.24 RRBs have not only provided financial services to the SHG-Bank Linkage Programme, but have also played a significant role as SHPIs. As many as 104 RRBs (31 March 2006) are also functioning as SHPIs with grant assistance from NABARD. Non-availability of good NGOs is a matter of concern especially in North-Eastern, Central and Eastern Regions. RRBs can play a vital role as SHPIs in such areas.

5.25 The foregoing paragraphs conclusively indicate that RRBs are well positioned to play a major role in financial inclusion particularly in areas / regions with high rates of financial exclusion. RRBs were originally created to cater to neglected sections / areas as they were expected to have sound financial management combined with local feel and familiarity. With the amalgamation of RRBs, they have acquired the critical mass in terms of financial strength to widen and deepen their outreach. With the requisite strength having been developed, RRBs are the best suited vehicles to widen and deepen the process of financial inclusion. However, utmost care must be taken to ensure that in the process of fulfilling the socio-economic objective of financial inclusion, RRBs' do not again fall into the vicious circle of deteriorating financial performance and deviation from their mandate. RRBs may be provided adequate promotional and developmental assistance to contribute substantially to financial inclusion in a way that the business generated out of inclusion efforts add positively to their performance.

Recommendations

5.26 RRBs should extend their services into unbanked areas and increase their credit to deposit (CD) ratio. As on 31 March 2006, 37 RRBs had CD ratio of less than 40%, 44 RRBs between 40% and 60% and 52 RRBs above 60%. The CD ratio variations ranged from 20% to 116%. As RRBs operate with branches in remote, interior and tribal-dominated areas, they have a special role to play in financial inclusion. The NRFIP, details of which are specified earlier, is of high relevance for RRBs, particularly those having CD ratio of less than 40%. The post-merger scenario of RRBs poses a series of challenges for them and needs to be addressed. The following areas would require attention from the point of view of financial inclusion.

- Setting exclusive targets for microfinance and financial inclusion,
- Providing funding support &
- Providing technology support

Keeping the above in view, the following specific **recommendations** are made :

No further merger of RRBs

5.27 There is a need for policy refinement regarding further merger of RRBs. The Vyas Committee had recommended merger of all RRBs in the same State. Currently, RRBs of the same sponsor bank are merged at State-level. By April 2007, the number of RRBs was reduced to 96. If sponsor banks are to have the requisite initiative to support their RRBs fully, they would need assurance that there will be no further mergers. The Committee is of the view that further merger of all RRBs at State-level is not required. It may also not be desirable if there has to be a firm reinforcement of the rural orientation of these institutions with a specific mandate on financial inclusion. The Committee, therefore, recommends that the process of merger should not proceed beyond the level of sponsor bank in each State.

Recapitalisation of RRBs with negative Net Worth

5.28 Recapitalisation of RRBs with negative net worth has to be given a serious consideration as it would facilitate their growth, provide lenders a level of comfort and enable their achieving standard capital adequacy ratios. As on March 2004, 98 RRBs were in need of Rs. 3,050 crore for making the net worth positive. The position, as on 31 March 2006, is that 40 RRBs would require Rs.1,718 crore.

Widening network and Expanding coverage

5.29 As on 01 April 2007, RRBs were covering 535 districts. They may be directed to cover all unbanked areas in these districts, taking the village as a unit, either by opening a branch (wherever feasible) or through the BF / BC model in a time bound manner. As on 01 April 2007, 87 districts in the country were not covered by RRBs and their area of operation may be extended to cover these districts.

Strategic microfinance plan with NABARD support

5.30 RRBs have the potential and capability to emerge as niche operators in microfinance. They are playing a major role in the SHG - Bank Linkage Programme especially also as SHPIs. It is significant that as an institution they have the expertise and potential to fulfill both the requirements of SHGs - formation plus nurturing and financial service provisions (credit plus). Their dual role has special meaning in areas which face severe financial exclusion and which do not have a sufficient presence of well performing NGOs. However, to upscale the programme to a level where it can really make a visible impact, RRBs need handholding particularly in the areas of training, promotion and development. NABARD may provide required assistance.

5.31 NABARD should prepare a strategic action plan RRB-wise, for promotion and credit linkage of SHGs. RRBs may be asked to form, nurture and credit link at least 3,000 SHGs in all districts covered by them in North-Eastern, Eastern and Central Regions. A Memorandum of Understanding (MoU) may be signed by RRBs with NABARD for a period of 5 years - with NABARD providing the promotional and development assistance out of the "Financial Inclusion Promotion and Development Fund" and RRBs forming, nurturing and providing financial services to SHGs. RRBs may accomplish the task with the support of individual rural volunteers, BFs, their staff members, etc. NABARD may closely monitor the programme - with focus on qualitative aspects.

NRFIP for RRBs

5.32 The strategy recommended earlier in the Report for NRFIP for commercial banks would be equally applicable for RRBs. The process of undertaking a survey, identification of excluded households, dissemination of the information, setting of bank-wise / branch-wise targets, etc., could be followed. RRBs will have certain handicaps in executing the Plan. They would require promotional, funding and technology support in different areas as outlined below. RRBs may endeavour to cover a large part of their incremental lending thru' the group mode (SHGs/JLGs) as it will enhance their outreach to the financially excluded. Lending thru' group mode would also keep NPAs at low level.

Pilot testing of BF / BC Model by RRBs

5.33 RRBs should adopt the BF and BC models as a major strategy of financial inclusion. NABARD should extend the required support including running pilots in selected banks. The proposal for a technology based intervention under the BF/ BC model would be equally relevant for RRBs. However, RRBs would require some handholding in implementing the proposal. NABARD may identify 10 RRBs across the country, giving greater weightage to regions manifesting higher levels of financial exclusion and work in strategic alliance with these RRBs and their sponsor banks in implementing the proposal. The RRBs identified by NABARD for the project will require to develop a core banking software for proper integration of the technology model proposed. NABARD should enter into a MoU with identified sponsor banks and RRBs and provide initial funding and technology support.

Separate credit plan for excluded regions

5.34 The Committee recommends that RRBs operating in predominantly tribal areas and having high levels of exclusion may prepare annual credit plans having a separate component for excluded groups, which would integrate credit provision with promotional assistance such as agricultural services and BDSs for the farm and non-farm sectors respectively including entrepreneurship development and formation and strengthening of producer's organisations like dairy cooperatives. Refinance and promotional support may be provided by NABARD to RRBs on a large scale for implementation of these credit plans.

Computerisation

5.35 With a view to facilitate the seamless integration of RRBs with the main payment system, there is a need to provide computerisation support to them. Banks will be eligible for support from the Financial Inclusion Funds on a matching contribution of 50% in regard to districts other than tribal districts and 75% in case of branches located in tribal districts under the Tribal Sub Plan.

Strengthening Boards of Management

5.36 Further, now that RRBs are being merged and are becoming large size entities, it is necessary that their Boards of Management are strengthened and powers delegated to them on policy and business operations, viz. introduction of new liability and credit products, investment decisions, improving market orientation in raising and deployment of resources, non-fund based business, career progression, transfer policy etc.

Tax Incentives

5.37 From 2006-07, RRBs are liable to pay income tax. To further strengthen the RRBs, profits transferred to reserves could be exempted from tax till they achieve standard capital adequacy ratios. Alternately, RRBs may be allowed tax concessions to the extent of 40% of their profits, as per provisions under Sec. 36 (1) (viii) of the Income Tax Act.

NABARD to support HR development in RRBs

5.38 RRBs should serve, with the support of NABARD, GoI, RBI and the sponsor banks, as active financial inclusion players especially in areas with high levels of financial exclusion. In order to build up the skills and expertise of the personnel of RRBs, NABARD has played a crucial role since the inception of RRBs. But for the efforts of NABARD and initiative of sponsor banks besides RRB managements themselves in HR development and in implementation of the reform package, the changes in business performance of RRBs would not have been possible. The work could be accomplished by NABARD working in close tandem with GoI and RBI besides the sponsor banks. NABARD would continue to give special priority to RRBs to train their staff through the training institutions like the Bankers Institute of Rural Development (BIRD) at Lucknow and the Regional Training Colleges at Mangalore and Bolpur, specially set up for meeting the training requirements of RRBs. NABARD may design suitable training programmes to enable RRBs to meet the challenges in the post merger environment. This training may also cover members of the Board of the RRBs. This support should be provided by NABARD working in close tandem with GoI, RBI and the sponsor banks.

Implementation of RBI initiatives for financial inclusion

5.39 All the recent circulars relating to financial inclusion, viz., no frills accounts, GCC, One Time Settlement (OTS) for loans up to Rs. 25,000, use of intermediaries, etc., should be implemented by RRBs.

Local Area Banks

5.40 The Finance Minister, in his August 1996 Budget, announced the concept of Local Area Banks (LAB) and following this, the RBI issued guidelines and sought applications for setting up LABs. Only 6 LABs were licensed to operate by RBI, of which 4 are currently functioning. Though the overall performance indicators of functioning LABs appear to be healthy, there have been a few instances of LABs having to close down. Keeping in view the inherent potential of LABs, RBI may consider revisiting the same and keep the option open to allow new LABs to come into operation, especially in districts / regions manifesting high levels of exclusion without compromising on regulatory prescriptions. LABs can integrate well with local financial markets and offer a host of financial services including savings, credit, remittances, insurance, etc.