



CAIIB

Module-B Unit-1

Rural Banking



CAIIB Rural Banking Module B Unit 1- Regulation of Rural Financial Services

Overall Set Up Of Rural Financial Institutions (RFIS)

- Under the multi-agency approach, the cooperative credit institutions, commercial banks, regional rural banks and small finance banks receive active support from Governments and the Reserve Bank.
- While RBI is providing overall guidance to these institutions for their efficient functioning, National Bank for Agriculture and Rural Development (NABARD) and Small Industries Development Bank of India (SIDBI) are providing refinance support to these institutions for augmenting the ground level credit flow to the priority areas.

Function And Policies of RBI In Rural Banking

Role of RBI in Rural Credit

A special feature of the RBI Act was provision for granting financial accommodation to the cooperative banking sector and scheduled banks. Section 17 of the Act envisage provision of agricultural credit by the Bank for seasonal agricultural operations and marketing of crops.

The broad functions of the Agricultural Credit Department were:

- To maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Central Government, State Government, State Co-operative Banks and other banking organizations,
- To co-ordinate the operations of the Bank in connection with agricultural credit and its relations with the State Cooperative Banks and any other banks or organizations, engaged in the business of agricultural credit.

Integrated Scheme of Rural Credit

The All-India Rural Credit Survey Committee (1954) made several recommendations, known as the Integrated Scheme of Rural Credit. It observed that only three per cent of agricultural credit was supplied by cooperatives and the rest by the money lenders.

The RBI decided to provide:

- Finance to the state Governments for contribution to the share capital of cooperative credit institutions at various levels, and
- Finance to the Cooperative Credit Structure to meet the credit requirements of short-term, medium-term and long-term finance.

RBI established two National Funds, viz., **National Agricultural Credit (Long Term Operations) Fund and the National Agricultural Credit (Stabilization) Fund in 1956.**

The NAC (LTO) Funds had an initial contribution of Rs. 10 crore. The Fund was to be utilized:

- For grant of long-term loans to State Governments for the purpose of their subscribing directly or indirectly to the share capital of cooperative credit institutions
- For grant of medium term loans to State Cooperative Banks and through them to Central Cooperative Banks or Societies for 15 months to 5 years
- For loans to State Land Development Bank for periods not exceeding 20 years by way of direct loans and by purchase of debentures floated by them.

The **NAC (Stabilization) Fund** was to be utilized for converting short term loans into medium term loans. This facility would be available to State Cooperative Banks to provide relief to farmers when they were not in a position to repay their dues in time, owing to drought, famine or other natural calamities.

Agricultural Refinance and Development Corporation

- RBI established the Agricultural Refinance Corporation in 1963, as its associate institution. Subsequently, it was renamed as Agricultural Refinance and Development Corporation (ARDC), to facilitate carrying development activities by the Corporation.
- The ARDC, until its merger with NABARD, had been refinancing the Land Development Banks, Commercial Banks, State Cooperative Banks, and Regional Rural Banks for various Schemes for agriculture and allied activities as well as for other diversified purposes.

Setting up REC /SFDA/MFAL

- On the basis of the recommendation of the All-India Rural Credit Review Committee (1969), **Rural Electrification Corporation** was set up in July 1969, to finance rural electrification schemes and **Small Farmers Development Agency (SFDA) and Marginal Farmers and Agricultural Labourers Projects (MFAL)** were set up to deal with the problems of small farmers and agricultural labourers and to ensure availability of agricultural inputs, services and credit.

RBI and Cooperatives

RBI played an important role in expansion of rural credit by cooperative sector till the formation of NABARD. Its role can be summarized as:

- Provision of finance
- Promotional activities including advisory role, and
- Regulatory functions.

RBI and Commercial Banks

The major efforts of RBI were:

- Introduction of the concept of priority sector lending (1967) and Lead Bank Scheme (1969),
- Issue of guidelines for the indirect financing of agriculture, by commercial banks through the primary agricultural credit societies (1970)
- Calling upon the banks to adopt an area approach for preparation and implementation of agriculture development schemes for ensuring effective supervision over the end use of credit by the ultimate beneficiaries (1970),
- Setting up the Credit Guarantee Corporation (1971) (now known as Deposit Insurance and Credit Guarantee Corporation)
- Introduction of the Differential Rate of Interest Scheme (DRI) (1972), and
- Advising Banks to adopt simplified forms and liberalize the security and margin money requirements.

RBI and Regional Rural Banks

The objective of RRBs was to provide credit facilities to the rural poor, namely, the small and marginal farmers, agricultural labourers, rural artisans and small entrepreneurs. After the formation of NABARD, RBI's functions relating to RRBs were transferred to NABARD. Presently, NABARD looks after the promotional and refinancing work, besides supervision and inspection of RRBs.

Role and Functions of NABARD

RBI at the instance of GOI appointed the **Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD)**, under the Chairmanship of **Shri B. Sivaraman**. The CRAFICARD recommended (1981) the establishment of a separate bank, at the national level, under the umbrella of RBI, to be known as **National Bank for Agriculture and Rural Development (NABARD)**, as a refinancing agency for the entire rural credit system.

NABARD is entrusted with the following major functions:

- Providing refinance to lending institutions in rural areas
- Bringing about or promoting institutional development and
- Evaluating, monitoring and inspecting the client banks

NABARD Infrastructure Development Assistance (NIDA): NIDA was designed by NABARD to fund projects for agriculture infrastructure, rural connectivity, renewable energy, power transmission, drinking water and sanitation, and other social and commercial infrastructure by offering flexible long-term loans to State Government and State-owned corporations.

Promotional and Development Programs

Climate change program initiatives: As a National Implementing Entity for three important funding arrangements, viz. **Adaptation Fund, National Adaptation Fund for Climate Change and Green Climate Fund**, NABARD have been aiming under the program to channelize national, international and private finances towards adaptation and mitigation interventions in the country.

- **Watershed Development Programs**
- **Natural Resource Management in collaboration with corporate entities**
- **Integrated Water management Scheme in water campaign villages**
- **Sustainable Tribal Livelihoods program under the Tribal Development Fund:** NABARD has set up a Tribal Development Fund with an initial corpus of Rs. 50 crore and utilized the fund for implementing programs, aiming at promotion of sustainable livelihoods among tribal families
- **Sustainable Sugarcane Initiative (SSI), Better Cotton Initiatives (BCI)** with drip irrigation, integrated biogas, ecotourism, sustainable agriculture practices.
- **Micro Finance initiatives:** NABARD has initiated a program to promote Self Help Groups, with a view to linking rural women with banks for savings and credit, to meet their families' needs and improve their livelihood.
- **Financial Inclusion interventions: The Financial Inclusion Fund** set up within NABARD with a view to supporting developmental and promotional activities including creation of financial inclusion infrastructure across the country.

Institutional Development Functions of NABARD

- NABARD provides policy, financial as well as technical support to rural credit cooperatives, as a part of institutional development efforts. **Financial support is provided through the Cooperative Development Fund**, while **technical, capacity building and knowledge sharing** support comes from the training establishments of the cooperatives and the Centre for Professional Excellence in Cooperatives (**C-PEC Lucknow**).
- **NABARD Initiated Project on Core Banking Solutions (CBS) in Co-operatives**
- NABARD has also rolled out a pilot scheme on implementation of **Fraud Risk Management Software** in eight rural cooperative banks, selected on the basis of their level of adoption of technology and financial health by providing grant support to these banks from out of the **Cooperative Development Fund**.

Subsidiaries of NABARD:

- NABARD has also promoted a few subsidiaries over the years, towards its endeavor to promote agriculture and rural development. These subsidiaries offer consultancy services in the arena of agriculture and rural development (**NABCONS**) and provide credit for promotion, expansion and commercialization of enterprises engaged in agriculture, non-farm activities and micro finance (**NABFINS, NABSAMRUDDHI and NABKISAN**).
- The **NABVENTURES Ltd** launched in 2013 manages venture growth equity funds that invest in early to mid-stage start-ups /companies in agriculture, food, related financial services and rural health tech/edu-tech.

Lead Bank Scheme

- The genesis of the Lead Bank Scheme (LBS) can be traced to the Study Group headed by Prof. D. R. Gadgil (Gadgil Study Group), on the Organizational

Framework for the Implementation of the Social Objectives, which submitted its report in October 1969.

- The Study Group drew attention to the fact that the commercial banks did not have adequate presence in rural areas and also lacked the required rural orientation. The Study Group, therefore, recommended the adoption of an '**Area Approach**' to evolve plans and programs for the development of an adequate banking and credit structure in the rural areas.
- Subsequently, the **Committee of Bankers on Branch Expansion Program of Public Sector Banks** appointed by the RBI under the Chairmanship of Shri F. K. F. Nariman (**Nariman Committee**), endorsed the idea of an 'Area Approach', in its report recommending that in order to enable the Public Sector Banks to discharge their social responsibilities, each bank should concentrate on certain districts, where it should act as a '**Lead Bank**'.
- **Lead Bank Scheme was introduced by RBI in December 1969.** The Scheme aims at coordinating the activities of banks and other developmental agencies in order to achieve the objective of enhancing the flow of bank finance to the priority sector and other sectors and to promote banks' role in the overall development of the rural sector. For coordinating the activities in the district, a particular bank is assigned 'Lead Bank'.
- Lead Bank Scheme was reviewed by the **Usha Thorat Committee**, which recommended directing the focus of the scheme to financial inclusion. RBI has been periodically monitoring the implementation of the scheme and detailed guidelines have been issued on the set up of **BLBC, DCC and SLBC** and convening of the meetings by these committees for effective implementation of the Lead Bank Scheme.

Yearly Calendar of Meetings

Activity	To be completed by (Date)
Preparation of calendar of SLBC/UTLBC meetings and intimation to all the concerned of the cut-off dates for submission of data and dates of meetings as per the dateline given below.	15th January every year
Reminder regarding the exact date of meeting and submission of data by banks to SLBC	15 days before end of the quarter
Dead line for receipt of information/data by SLBC Convenor Bank	15 days from the end of the quarter
Distribution of agenda cum background papers	20 days from the end of the quarter
Holding of the meeting	Within 45 days from the end of the quarter
Forwarding the minutes of the meeting to all stakeholders	Within 10 days from holding the meeting
Follow-up of the action points emerged from the meeting	To be completed within 30 days of forwarding the minutes (for review in the next meeting)

Monitoring of LBS by RBI – Monitoring Information System (MIS)

- Data on **Annual Credit Plan (ACP)** is an important element to review the flow of credit in the state. ACP formats are aligned with the extant reporting guidelines on **priority sector lending**.

- ACP is to be prepared considering the categories of priority sector that would include **Agriculture, Micro, Small and Medium Enterprises, Export Credit, Education, Housing, Social Infrastructure, Renewable Energy and Others**.
- As per RBI guidelines, the bank loans to Micro/Small and Medium Enterprises (Services), engaged in providing or rendering of services as defined in terms of investment in equipment under MSMED Act, 2006, shall qualify under priority sector, without any credit cap. Accordingly, the applicable **loan limits per borrower to Micro/Small Enterprises (Rs. 5 crore) and Medium Enterprises (Rs. 10 crore) under the MSMEs Sector (Services), for classification under priority sector have been removed**.

Assignment of Lead Bank Responsibility

- As on June 30, 2020, 12 public sector banks and one private sector bank have been assigned Lead Bank responsibility in 726 districts of the country.
- State Level Bankers' Committee (SLBC) / Union Territory Level Bankers' Committee (UTLBC), as an apex level forum at the State/Union Territory (UT) level, coordinates the activities of the financial institutions and Government departments in the State/Union Territory under the Lead Bank Scheme.

National Strategy for Financial Inclusion (NSFI): 2019-2024 – Universal Access to Financial Services

- Providing banking access to every village within a 5 KM radius/ hamlet of 500 households in hilly areas has been one of the key objectives of the National Strategy for Financial Inclusion (NSFI): 2019-2024.
- Accordingly, SLBC/ UTLBC Convenor banks have been advised to review the presence of banking outlets of Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs), Small Finance Banks(SFBs) and Payments Banks(PBs) in every village within a 5 KM radius/ hamlet of 500 households in hilly areas under their jurisdiction(s) and ensure that universal access to financial services are provided to all such villages.

Credit Deposit Ratio (CD Ratio)

CD Ratio of Banks in Rural and Semi-Urban areas:

- Banks have been advised to achieve a CD Ratio of 60 % in respect of their rural and semi-urban branches separately on an All-India basis.
- Banks are advised that in the districts having CD Ratio less than 40 %, Special Sub-Committees (SSCs) of the DCC shall be set up to monitor the CD Ratio. Districts having CD Ratio between 40 and 60 percent, shall be monitored under the existing system by the DCC, and the district with CD Ratio of less than 20 percent need to be treated on a special footing.

Direct Benefit Transfer

- Direct Benefit Transfer (**DBT**) was rolled out by the Government of India in selected districts in January 2013. It was expanded to other districts

subsequently. As a prerequisite to the implementation of the DBT, every eligible individual should have a bank account. Further, to make disbursements at the doorstep through the ICT-based BC model, banking outlets either through brick & mortar branches or the branchless mode is needed in all villages across the country.

Banks have been advised to:

- Take steps to complete the opening of bank accounts and seeding of Aadhaar numbers, in all bank accounts.
- Closely monitor the progress in seeding of Aadhaar number with the bank accounts of beneficiaries.
- Put in place a system to provide the beneficiary of the seeding request an acknowledgement and also send a confirmation of the seeding of Aadhaar number.
- Form a DBT Implementation Co-ordination Committee, along with the State Government department concerned, at district level and review the seeding of Aadhaar numbers in bank accounts.
- Ensure that district and village wise names and other details of business correspondents (BCs) engaged/ other arrangements made by the bank are displayed on the SLBC website.
- Set up a Complaint Grievance Redressal mechanism in each bank and nominate a Complaint Redressal Officer in each district, to redress the grievances related to 'seeding' of Aadhaar number in bank accounts.

Service Area Approach

- The Service Area Approach (SAA), introduced in April 1989 for planned and orderly development of rural and semi-urban areas was applicable to all scheduled commercial banks including Regional Rural Banks.
- Under SAA, each bank branch in a rural or semi-urban area was designated to **serve an area of 15 to 25 villages** and the branch was responsible for meeting the needs of bank credit of its service area.
- **Dispensing with 'No Due Certificate':** In order to ensure hassle free credit to all borrowers, especially in rural and semi-urban areas and keeping in view the technological developments and the different ways available with banks to avoid multiple financing, banks have been advised to dispense with obtaining a 'No Due Certificate' from the individual borrowers (including SHGs & JLGs) in rural and semi-urban areas for all types of loans.

Doubling of Farmers' Income by Year 2022

The strategy to achieve this goal, includes:

- Focus on irrigation with large budgets, with the aim of "per drop, more crop"
- Provision of quality seeds and nutrients based on soil health of each field
- Investments in warehousing and cold chains to prevent post-harvest crop losses
- Promotion of value addition through food processing

- Creation of a national farm market, removing distortions and development of infrastructure such as e-platform across 585 stations
- Strengthening of the crop insurance scheme to mitigate risks, at affordable cost
- Promotion of ancillary activities like poultry, bee-keeping and **fisheries**

Expanding and Deepening of Digital Payments Ecosystem

- With a view to expanding and deepening the digital payments ecosystem, the SLBCs/UTLBCs were advised to identify one district in their respective States/UTs on a pilot basis in consultation with banks and stakeholders and allocate it to a bank with significant footprint which will endeavour to make the district 100% digitally enabled within a period of one year, in order to enable every individual in the district to make/ receive payments digitally in a safe, secure, quick, affordable and convenient manner.

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