Recapitalisation of RRBs

Why in News

Recently, the Centre has approved a ₹1,340-crore recapitalisation plan for Regional Rural Banks (RRBs).

The move is crucial to ensure liquidity in rural areas during the lockdown due to the **COVID-19** crisis.

Regional Rural Banks

- RRBs are financial institutions which ensure adequate **credit for agriculture and other rural sectors.**
- Regional Rural Banks were set up on the basis of the recommendations of the **Narasimham Working Group (1975),** and after the legislation of the **Regional Rural Banks Act, 1976.**
- The first Regional Rural Bank "Prathama Grameen Bank" was set up on 2 nd October, 1975.
- **Stakeholders:** The **equity** of a regional rural bank is held by the **Central Government,** concerned **State Government** and the **Sponsor Bank** in the proportion of **50:15:35.**
- The RRBs combine the **characteristics of a cooperative** in terms of the familiarity of the rural problems **and a commercial bank** in terms of its professionalism and ability to mobilise financial resources.
- Each RRB operates within the local limits as notified by the Government.
- The **main objectives** of RRBs are
    - To provide credit and other facilities to **the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in rural areas.**
    - To check the outflow of rural deposits to urban areas and **reduce regional imbalances** and **increase rural employment generation.**

- The RRBs are required to provide 75% of their total credit as **priority sector lending.**

Key Points

- This recapitalisation (a strategy of enhancing the financial base of an entity to overcome a rough financial situation) would improve their **capital-to-risk weighted assets ratio (CRAR)** and strengthen these institutions for providing credit in rural areas.
    - The step will help those RRBs which are unable to maintain a minimum CRAR of 9%, as per the regulatory norms prescribed by the RBI.
- The release of the Rs. 670 crore as the central share funds will be contingent upon the release of the proportionate share by the sponsor banks.
- The recapitalisation process of RRBs **was approved by the cabinet in 2011 based** on the recommendations of a committee set up under the **Chairmanship of K C Chakrabarty.**
    - The **National Bank for Agriculture and Rural Development (NABARD)** identifies those RRBs, which require recapitalisation assistance to maintain the mandatory CRAR of 9% based on the CRAR position of RRBs, as on 31st March of every year.
    - The scheme for recapitalization of RRBs was extended up to 2019-20 in a phased manner post 2011.

Capital-to-risk Weighted Assets Ratio

- CRAR or **Capital Adequacy Ratio (CAR)** is the ratio of a bank's capital in relation to its **risk weighted assets and current liabilities.**
- It is decided by central banks and bank regulators to prevent commercial banks from taking excess leverage and becoming insolvent in the process.
- The **Basel III norms** stipulated a capital to risk weighted assets of 8%.
- However, as per **RBI** norms, Indian scheduled commercial banks are required to maintain a **CRAR of 9%.**

Source: TH