Regional Rural Banks:

The regional rural banks are relatively new banking institutions which were added to the Indian Banking scene since October, 1975. The necessity of rural banks was felt because existing commercial banks and cooperative banks were not able to serve the credit and other banking needs of the following:

(i) Small & Marginal farmers
(ii) Small entrepreneurs
(iii) Agricultural Rural Labourers
(iv) artisans
(v) Mobilize Deposits from rural households etc.

Regional Rural Banks are Public Sector Bank's which are primarily meant to cater to the needs of poor and small borrowers in the country side. The RRBs avail refinance facilities from NABARD (National Bank for Agriculture and Rural Development) in respect of short term, medium and long term advances granted by them. The deposits of RRBs also insured with the deposit insurance and credit guarantee corporation.

First RRB: The first RRB named Prathma Bank was established at Moradabad on 2nd October, 1975 and lead bank was Syndicate bank.

Owned by: The equity or share of RRB is divided into the following ratio:

- Government of India -50%
- Sponsored or lead bank -35%
- State Government -15%

It has taken up with RBI that with the cooperation of commercial banks it will give banking services and facilities to rural bank.

Establishment - RRB Act, 1976
Recommendation: Narasimham Working Group
Total number of RRBs = 56
Role of RRB: RRB has following major role in implementation of Central and State Govt. sponsored various programme of Poverty alleviation.

- Swarna Jayanti Gram Swarozgar Yojna (SGSRY)
- Prime Minister Rozgar Guarantee Yojna (PMRGY)
- Old age Pension
- Midday meal
- Indra Awas Yojana
- Payment to Anagwadi
- Scholarship to students
- Labour payment for NAREGA labourers.

NABARD is the regularity authority of all Regional Rural Banks in India.

On Oct 2, 1975, 5 Regional Rural Banks were set up. These banks were set up in a backward or a tribal area where the coverage by commercial or cooperative banks was rather poor. During 1977-78 they extended credit to the extent of Rs. 52.08 Crore to the rural people.

In 1977, the Reserve Bank of India set up a committee under the Chairmanship of M.L. Dantwala to review the working of the Regional Rural Banks. The committee felt that the setting up of these banks was a step in the right direction.

Mostly, these banks grant loans for productive purposes but a small proportion can also be earmarked for consumption purposes like education or medical expenses. Since 22.03.1997 these banks have been allowed to lend outside the target group also.

A few years back, it was found that the profitability of the RRBs had been going down. There was over staffing and a huge amount of overdues. More than 80% of these banks were suffering losses. A world bank study also points out that the RRBs have been severally weekend by excessive course and regulations and have deep seated problems of asset quality and of capital adequacy.

In this regard, we may point out that All India Rural Credit Review Committee which submitted its report in 1989, had even suggested that these banks should be merged with the parent banks sponsoring them. However Govt. did not accept this recommendation. On the other hand it tried to improve their working in various ways.

References

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