



Regional Rural Banks

For Prelims: Core Banking Solution (CBS), Regional Rural Banks, capital to risk-weighted assets ratio (CRAR), capital to risk-weighted assets ratio (CRAR), Micro, Small, and Medium Enterprises (MSME).

For Mains: Regional Rural Banks' role in the rural economy

Why in News?

Recently, a meeting was held between the finance minister and the heads of banks to discuss various reforms in Regional Rural Banks (RRBs).

What are RRBs?

▪ About:

- The Regional Rural Banks (RRBs) were established in 1975 under the provisions of the Ordinance promulgated on 26th September 1975 and Regional Rural Banks Act, 1976.
- RRBs are **financial institutions** which ensure adequate credit for agriculture and other rural sectors.
- 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.
- After the reforms in the 1990s, the government in 2005-06 **initiated a consolidation program** that resulted in the number of RRBs declining from 196 in 2005 to 43 in FY21, and 30 of the 43 RRBs reported net profits.

▪ Functions:

- The basic functions of a bank can be summarized as follows:
 - To provide safety to the savings of customers
 - To create credit and increase the supply of money
 - To encourage public confidence in the financial system
 - To mobilize the savings of public
 - To increase its network so as to reach every segment of the society
 - To provide financial services to all customers irrespective of their level of income
 - To bring in social equity by providing financial services to every stratum of society.

What are the Issues Related to RRBs?

- **Rising Cost:** The rising cost of operations of [Regional Rural Banks \(RRBs\)](#) as compared to scheduled commercial banks.
 - The government wants them to work towards increasing their earnings.
- **Limited Activities:** Due to the fact that many of these branches don't have enough business, they are incurring losses.
 - In rural areas, they mainly offer government schemes like [Direct Benefit transfer](#).
- **Low Internet Banking:** At present only 19 RRBs have internet banking facilities and 37 have mobile banking licenses.

- Existing regulations allow only those RRBs to offer internet banking which maintains minimum statutory **capital to risk-weighted assets ratio (CRAR)** of more than 10%.

What are the Suggestions by the Government?

- It has asked RRBs to move towards **digitization, including offering internet banking services** to its customers and expanding their credit base further through increased lending to the **Micro, Small, and Medium Enterprises (MSME) sector**.
 - So that they become financially sustainable
- It urged the sponsor banks to formulate a clear roadmap in a time-bound manner to further strengthen the RRBs and support the post-pandemic economic recovery and
 - Also, suggested conducting a workshop on RRBs and sharing the best practices with each other.

How are RRBs being Reformed by the Government?

- Over the years, various steps have been taken by the government to increase the contribution of people to the financial system of India.
 - In 1969, a major renovation in the banking sector took place with the **Nationalization of all the Banks existing in India**. In the year 1981, the **National Bank for Agriculture and Rural Development (NABARD)** was established.
 - The main aim of establishing NABARD was **to promote sustainable and impartial agriculture** and enhance rural prosperity through **effective credit support, related services, institution development, and other innovative initiatives**.
- Hence, the **National Bank for Agriculture and Rural Development (Nabard)** will spearhead the initiative to revive the RRBs.
 - Further, the development bank is already working on a **roadmap for 22 RRBs which is expected to be implemented by the end of this year**.
 - The plan also included **merging branches of these RRBs with sponsor banks** once these branches reach a certain level of business.
 - Last year, the government set up a panel with members drawn from Nabard and the RBI to give recommendations for strengthening the regional lenders.
 - The government has **contributed RS 4,084 crores towards RRB recapitalization in 2021-22**, of which Rs. 3,197 crores has been released to 21 lenders. **focus on financial inclusion by leveraging technology**

Way Forward

- There is a need to have a common framework for RRBs, along the lines of **core banking solution (CBS)**, so that all of them can provide online banking services to their customers and further, enhance their outreach and profitability.
- There should be more like internet banking etc.
- Further, they **need to increase their efficiency** and touch various other dimensions of banking, like providing loans to merchants, MSME's that could **increase their profitability**.

UPSC Civil Services Examination Previous Year Question (PYQ)

Prelims

Q. Which of the following grants/grant direct credit assistance to rural households? (2013)

1. Regional Rural Banks
2. National Bank for Agriculture and Rural Development
3. Land Development Banks

Select the correct answer using the codes given below:

- (a) 1 and 2 only
- (b) 2 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Ans: (c)

Exp:

▪ **Regional Rural Banks -**

- These were set up as government-sponsored, regional based rural lending institutions under the Regional Rural Banks Act, 1976.
- **Mission of RRBs is to fulfil the credit needs of the relatively unserved sections in the rural areas, small and marginal farmers, agricultural labourers and socio-economically weaker sections.**
- Shareholding pattern of RRBs among the three sponsoring entities is 50: 35: 15 among the central government, sponsoring bank and state government, respectively. Hence, 1 is correct.

▪ **National Bank for Agriculture and Rural Development (NABARD)**

- It is a statutory body established in 1982 under parliamentary Act-National Bank for Agriculture and Rural Development Act, 1981.
- It is responsible for the development of the small industries, cottage industries, and any other such village or rural projects.
- It provides refinance support for building rural infrastructure and not directly finance rural households. Hence, 2 is not correct.
- It prepares district level credit plans to guide and motivate the banking industry in achieving targets.

▪ **Land Development Banks -**

- Quasi-commercial banks registered under the Cooperative Societies Act, these are associations of borrowers as well as non-borrowers organized on the principle of limited liability.
- All landowners are eligible to become members and borrow funds by mortgaging their land.
- The principal borrower is enrolled as 'A' class member and others who have an interest in the mortgaged property are admitted as 'B' class members. Thus, they also grant direct credit assistance to rural households. Hence, 3 is correct. Therefore, option (c) is the correct answer

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