INTRODUCTION

Regional Rural Banks have been in existence for around 32 years in the Indian financial scene. Inception of Regional Rural Banks may be seen as a unique experiment as well as experience in improving the efficacy of rural credit delivery mechanism in India. Keeping in view the local peculiarities, an effort was made to integrate commercial banking within the broad policy framework towards social banking through joint shareholding of Central Government, the Concerned State Governments and the Sponsoring Bank. The genesis of the Regional Rural Banks may be traced for the need for a stronger institutional arrangement for providing rural credit. The institution of Regional Rural Banks (RRBs) was created to meet the excess demand for institutional credit in the rural areas, particularly among the economically and socially marginalized sections. Although the cooperative banks and the commercial banks had reasonable records in terms of geographical coverage and disbursement of credit, in terms of population groups the cooperative banks were dominated by the rural rich, while the commercial banks had a clear urban bias.

The Banking Commission (1972) recommended to establish an alternative institution for rural credit and ultimately Government of India established Regional Rural Banks – a separate institution basically for rural credit on the basis of the recommendations of the Working Group under the Chairmanship of Sh. M. Narashimham. In order to provide access to low-cost banking facilities to the poor, the Narashimham Working Group (1975) proposed the establishment of a new set of banks, as institutions which “combine the local feel and the familiarity with rural problems which the cooperatives possess and the degree of business organization, ability to mobilize deposits, access to
central money markets and modernized outlook which the commercial banks have”.

Subsequently, the Regional Rural Banks were setup through the promulgation of RRB Act of 1976. The RRBs Act, 1976 succinctly sums up this overall vision to sub-serve both the developmental and the redistributive objectives. The RRBs were established “with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to small and marginal farmers, agricultural laborers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto”.

Regional Rural Banks were supposed to evolve as specialized rural financial institutions for developing the rural economy by providing credit to small and marginal farmers, agricultural laborers, artisans and small entrepreneurs. Their equity is held by the Central Government, Concerned State Government and the Sponsor Bank in the proportion of 50:15:35 respectively. The mandates of these rural financial institutions were to:

(a) take banking to the doorsteps of the rural masses, particularly in areas without banking facilities;
(b) make available cheaper institutional credit to the weaker sections of society, who were to be the only clients of these banks;
(c) mobilize rural savings and canalize them for supporting productive activities in the rural areas;
(d) generate employment opportunities in the rural areas and
(e) bring down the cost of providing credit in rural areas.