Chapter-4

Regional Rural Banks
Regional Rural Banks

The Regional Rural Banks (RRBs), as their very name indicates, are commercial banks started with the basic objective of providing commercial banking services in the rural areas of the country, particularly in those areas and to those sections of the rural society to which commercial banking facilities have not been available hitherto. This chapter will now be devoted to a discussion of the origin, nature and progress of the Regional Rural Banks in the country.

It was seen in the preceding chapter that the commercial bank in India had, traditionally, an urban base and that the banking needs of the rural areas of the country were generally ignored by the commercial banks, a phenomenon called local imbalances in the distribution of the banking facilities in the country. The need to set right these imbalances was recognised by the banking commission and its suggested, in its report submitted in 1972, the setting up of rural banks as a remedy. The commission had suggested that in areas where co-operative credit structure is generally weak, a rural bank may be established either by making a good primary agricultural credit society to work as a subsidiary of a commercial bank or by the commercial bank setting up its own subsidiary. Such a rural bank may be called a rural subsidiary bank. It should retain the useful features of co-operative credit institutions such as local participation, flexibility as regards increasing share capital, arrangement for selling shares
to local people etc. The parent banks will provide it with full technical and financial support. According to the commission, while the rural banks are basically banks and will perform all the banking function, it will be desirable to enable them to perform certain non-banking functions, such as constructing and maintaining godowns of their own, supplying as agents, agricultural inputs and acquiring of agricultural and other equipment for leasing it out, providing assistance in the marketing of agricultural and other products and generally helping in the overall development of the villages in the area. The commission had listed the following eight types of functions that a rural bank may be expected to assume in due course.

(I) Mobilise local savings by means of the various types of deposits;
(ii) Provide short term and medium term credit for agricultural and other purposes to rural producers and provide long term loans to agriculturists as agent of the land development bank;
(iii) Provide various ancillary banking services to local such as people remittance of funds, acceptance of insurance premium, safe deposit lockers etc.;
(iv) Implement programmes of supervised credit tailored to the needs of individual farmers
(v) Set up and maintain godowns
(vi) Undertake supply of inputs and agricultural and relative equipment's to farmers as agents and in appropriate cases equipment leasing
(vii) Provide assistance in the marketing of agricultural and other products through marketing organisations
(viii) Generally help in the overall development of the villages in its area.

In its view, a rural bank should cater to the full credit needs of all medium and small cultivators.²

The Origin:

The proposal of setting up rural banks was first mooted by the banking commission in its report in 1972. Its recommendations that a chain of rural banks be established in addition to the regular branches of commercial banks already opened or to be opened in rural areas. However, concrete steps to set-up rural banks in the country were adopted only in 1975 with the consequent upon the declaration of emergency in the country in June 1975, announced the economic programme, which among many other thing, aimed at devising alternative agencies to provide institutional credit to landless labourers, rural artisans and small and marginal farmers, in the context of steps been initiated, also under programme to liquidate rural indebtedness of those classes of people.³ A working group appointed by the government of India under the chairmanship of Mr. M. Narsimhan examined the question in detail and suggested the setting up of Regional Rural Banks. The Regional Rural Banks Ordinance was promulgated by the President on 26 Sep. 1975 which came into force with immediate effect and extending to the whole of India in order to facilitated the setting up of regional rural banks in the country. The Regional Rural Banks Act subsequently replaced the
ordinance, 1976 on 9 Feb. 1976. The first five regional rural banks to be established in four states in country were inaugurated on Oct. 2, 1975. These were two in Uttar Pradesh, one at Moradabad by the Syndicate Bank and the other at Gorakhpur by the State Bank of India, one in Rajasthan by the United Commercial Bank, one in Bhiwani (Haryana) by the Punjab National Bank and one in Malda (West Bengal) by the United Bank of India. Table 4.1 gives information pertaining to these pioneering regional rural banks, their sponsoring banks, location of the head offices of these banks, the district to whose local limits their jurisdictions are confined and the states to which they belongs.

The regional rural banks are somewhere in between public sector banks and the co-operative structure. They combine in themselves the characteristics of both these institutions and are expected to play a supporting role in districts where the credit gap is very large and the co-operative structure is weak. In setting up of regional rural banks, certain norms have been observed. These are -

- Areas should be relatively backward or tribal;
- Regional rural banks are to be set up in areas where the co-operative banks are not active;
- There should not be any commercial bank in the area; and
- The area should have a real potentiality for development breakthrough with the flow of credit.
While recommending the setting up of regional rural banks, the working group on rural banks appointed by the government in 1975 opined that each regional rural bank combines in itself the local feel and familiarity with the rural problems which the co-operatives possessed and the degree of business organisations, ability to mobilise funds, access the central money market and a modernised outlook which the commercial banks have. The regional rural banks are trying to meet the credit requirements of backward areas where coverage by the commercial banks and co-operatives is relatively poor. However, such areas have growth potentialities and should make rapid progress when once the credit requirements are met. The regional rural banks appear to be attractive on account of their possibility of combining the relative sophistication of a commercial bank with local bias and low cost structure associated with co-operatives. One of the tasks envisaged from the regional rural banks is to maintain their cost of operations at a lower level than that of the commercial banks.

**Objective and Nature:**

The basic objective of Regional Rural Banks, as laid down in the ordinance, is the provision of credit and other facilities especially to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in the rural areas. From the above basic objective of the Regional Rural Banks it is possible to point out the following distinguishing features which characterise the Regional Rural Banks-
(i) **Rural in nature:** - As their very name indicates the Regional Rural Banks are specially designed to provide banking facilities in the rural areas and to meet the credit requirements of people and occupations in the rural areas of the country so that the transactions of these banks are confined to the rural areas of the country. Catering to the credit needs of people and occupations in the urban areas and industrial centres of the country is beyond the preview of these banks.

(ii) **Area Approach:** - Secondly, an area approaches to the development of these banks and their activities are implied in the concept of Regional Rural Banks. A Regional Rural Bank is to confine its activities to a specified region of a district or in special cases to the geographical regions coming under two or three neighbouring districts specified while the bank is established. The idea is to make a bank concentrate its attention and activities in a specified and manageable region so as to help in the development of that region instead of spreading its resources thinly over a large area which can not be effectively covered by a bank.

(iii) **Target group approach:** - Thirdly, even within the rural areas of a specified geographical region, a Regional Rural Bank is to confine its activities to financing the credit needs of the landless agricultural labourers, artisans and small entrepreneurs and of the small and marginal farmers whose credit and banking needs are not met hitherto by the existing institutional credit agencies like the co-operative credit institutions and the
commercial banks. The Regional Rural Banks are thus, meant to meet the credit and other banking needs of the weaker sections of the rural society.

From the above it is clear that the Regional Rural Banks are meant basically to fill the credit and banking gap that had hitherto existed in the rural areas of the country and, therefore, through the Regional Rural Banks are Commercial Banks, their objectives lending principles and practices are to be fundamentally different from those of the ordinary commercial banks functioning in the country. They are to provide credit and other banking facilities to the poorest sections of the rural society in order to enable them to acquire certain productive assets or income earning capacity for improving their living and economic conditions. The setting up of the Regional Rural Banks in the country can, therefore, be viewed as a part of the programme of poverty alleviation in the country. The basic objective of the Regional Rural Banks is, thus more social than commercial in character.

**Establishment:**

The establishment of a Regional Rural Bank as per the ordinance is as under:

"In terms of the ordinance, the central government is empowered, on the request of any bank called "Sponsor Bank", to establish in the State or Union Territory one or more Regional Rural Banks with such name as may be specified in the notification issued by it. Each Regional Rural Bank (RRB) will operate within the local limits to be specified by a notification. Every RRB will be a corporate body with perpetual succession and a common seal. If it
is necessary, a RRB might also establish branches or agencies at any place notified by the Government. The Head office of the RRB will be at such a place within the local limits as specified by the Government, after consultation with the Reserve Bank and the sponsor bank."

With regard to the responsibilities of a sponsor bank in developing a RRB the ordinance states that a sponsor bank will assist the RRB sponsored by it in several ways. It will subscribe to the share capital of the RRBs, assist in its establishment, recruitment and training of personnel during the initial period of functioning of the RRB, and in general, provide such managerial and financial assistance as may be mutually agreed upon between the sponsor bank and the Regional Rural Bank."  

**Capital:**

The ordinance provides for an authorised capital for each bank of one crore of rupees which the central government may increase or reduce in consultation with the Reserve Bank of India and the sponsor bank, subject to a minimum of Rs. 25 lakh. Later on, on the recommendations of the working group set up to review the working of Regional Rural Banks the government has now increased the authorised capital of these banks to Rs. 5 crore and the issued capital of Rs. 1 crore. Each RRB will have an issued capital of Rs. 25 lakh of which 50 percent will be subscribed by the central government, 15 percent by the concerned state government and the remaining 35 percent by the sponsor bank. The Board of Directors of the
RRB can increase the issued capital in consultation with the Reserve Bank and the sponsor Bank and with the prior approval of the central government.

The strength of the RRBs lies in the fact that they combine the good features of both Co-operative and commercial banks. No doubt, RRBs are basically scheduled commercial banks, but they differ from the existing commercial banks in several ways.8

- First the RRB’s area of operation is limited to a particular region;
- Second, in granting loans, they concentrate on weaker sections of rural India like the small and marginal farmers, agricultural labourers and rural artisans;
- Third, their lending rates are not higher than the prevailing lending rates of co-operative societies in any particular state; and
- Last, their salary structure is different from that of the commercial banks. It is prescribed by the central government, taking into account the salary structure of the employees of the government and local authorities of comparable level and status in that area of operation of the bank. (At present, the staff of RRBs draws salaries on par with those of the commercial banks).

Management:

Each RRB will have a Board of Directors consisting of the chairman, three Directors to be nominated by the central government, not more than two Directors to be nominated by the concerned State Government and not more than three Directors to be nominated by the Sponsor Bank. The
central government has the power to increase the number of members of the Board upto a maximum of fifteen and also prescribe the manner in which the additional number is filled in.

The central government appoints the chairman of the Board for a maximum period of five years and he hold the office during the pleasure of the central government. A person is eligible for reappointment as the chairman. The chairman is a full time officer of the Bank and is responsible for managing the affairs of the RRB subject to the superintendence, control and direction of the Board of Directors in which is vested the general superintendence, direction and management of the affairs and business of a RRB. It has been specifically laid down in the ordinance that in discharging its functions "the Board should act on business principles and should have due regard to public interest. Further a RRB in regard to matters of policy involving public interest as the central government may give, after consultation with the Reserve Bank. The sponsor Bank will assist the RRB in the initial years of its functioning by deputing its officers and other employees to it for managing its day to day business activities.

**Business:**

Every RRB is authorised by the ordinance to carry on and transact the business of banking as defined in clause (b) of section 5 of the Banking Regulation Act 1949 any may engage in one or more forms of business specified in sub section (I) of section 6 of that Act. In particular, a RRB is required to undertake the business of-
(a) Granting of loans and advances to small and marginal farmers and agricultural labourers, whether individually or in groups, and to co-operative societies, including agricultural marketing societies, primary agricultural credit societies or farmer’s service societies, for agricultural purposes or agricultural operations or for other related purposes; and

(b) Granting of loans and advances to artisans, small entrepreneurs and persons of small means engaged in trade, commerce or industry or other productive activities, within its area of operation.9

The Regional Rural Banks are assisted in their business by the Reserve Bank by granting loans and advances, whenever necessary, from the National Agricultural Credit (long-term Operations) Fund and from the National Agricultural Credit (Stabilisation) fund. These functions are now carried on by the National Bank for Agriculture and Rural Development (NABARD) since its establishment in 1982.

The Reserve Bank of India is also empowered to regulate the activities of the Regional Rural Banks by varying the cash reserve ratio and the percentage of liquid assets to be maintained with it in respect of their demand and time liabilities. Reserve Bank of India has placed RRBs on par with refinance facilities made available to the Co-operative banks i.e., RRBs would be provided refinance at 2 percent below the bank rate. Like commercial banks, they also have made the RRBs eligible for accommodation against a mere declaration of eligible loans and advances.
To achieve viability of the RRBs, the Reserve Bank of India (RBI) has granted the following concessions:

- Statutory Liquidity Ratio (SLR) to be maintained at 25 percent as against 35 percent by the commercial banks;

- RRBs are allowed to pay half a percent higher interest to its depositors than the interest rate offered by commercial banks to their depositors;

- Cash reserve requirements of 3 percent to be maintained with the RBI as against 9.5 percent by commercial banks;

- They are allowed to charge interest on their direct loans to the persons belonging to the specified categories of the rural society at par with the rate charged by the Primary Agricultural Co-operative Societies (PACS) to its clients;

- They are entitled to get 9 percent interest on the balance maintained in the current account by them with the sponsor bank.

- They are allowed to draw refinance from RBI, now from NABARD, to the extent of 50 percent or more depending upon the type of advance of the eligible outstanding loan at concessional rate of interest at 7 percent per annum.

- Similarly, refinance to the extent of 30 percent of eligible outstanding loans can be drawn from the sponsoring bank at concessional rate of 8.5 percent per annum.
**Progress of Regional Rural Banks: -**

During the period from the setting up of the first five Regional Rural Banks on October 2, 1975 and March 12, 1976 a total of eleven Regional Rural Banks were set up in the country. Of these, 3 Banks were set up in Uttar Pradesh and one each in Haryana, Rajasthan, West Bengal, Madhya Pradesh, Bihar, Karnataka, Orissa and Jammu and Kashmir. There were 48 RRBs functioning in the country as on the last friday of March 1978. The total deposits of these 48 RRBs stood at Rs. 37.11 crore and their total advances amounted to Rs. 52.27 crore. Of the total advances, the advances granted to small/marginal farmers, landless labourers and rural artisans amounted to Rs. 48.39 crore, forming 92.6 percent of the total advances as on that date. The number of farmer’s service society sponsored/financed by the Regional Rural Banks was 94 at the end of December 1977. The progress made by the Regional Rural Banks in the country during the period from June 30, 1978 to March 1996 can be perceived from the data contained in table 4.2. These data reveal that the number of RRBs in the country increased from 48 as on June 30, 1978 to 196 as on March 1996. The total number of branches of RRBs increased from 1405 as on June 30, 1978 to 15543 as on March 31, 1993, which were reduced to 14497 as on March 31, 1996. The number of districts covered by the RRBs in the country increased from 130 as on June 30, 1980 to 427 as on March 31, 1996, Uttar Pradesh had the largest number of branches of RRBs(3035), followed by Bihar (1885) and Madhya Pradesh (1593) as at the end of March 1996.
If can be seen from the data that in respect of the expansion of the Branches, emphasis has been laid on rapid branch expansion in the relatively underdeveloped states, like Uttar Pradesh, Bihar, Madhya Pradesh and Andhra Pradesh which were also, as was seen in earlier chapter, relatively under banked states in the country in 1969. From this, it is clear that the policy of branch expansion of the RRBs has been such as to subserve to one of the basic objectives behind the setting up of RRBs in the country, mainly to increase the availability of banking facilities in the underbanked regions and in the rural areas of the country which were hitherto lacking insufficient banking facilities. The branch expansion policy of RBI have envisaged bringing down bank population rate to 1600 with main emphasis to bring about a balance between metropolitan cities on the one hand and semi-urban and rural areas on the other with a priority to unbanked or underbanked districts. These banks are essential for rural populace. And they continue to be so. This is evident from the fact that very large proportion of around 90 percent of their offices work in the rural milieu. These banks with about one percent of offices in urban areas, 6-7 percent in semi-urban areas and none in metropolitan/port towns, are in substance rural banks. It appears as these belong to the rural culture.

**Operation of Regional Rural Banks:**

The operations of the Regional Rural Banks, like the steady expansion in the network of their branches except in the last three four
years, have been steadily increasing in the country since their establishment both in terms of the volume of deposits mobilised and loans advanced by them and in terms of the nature of their lending transactions.

**Deposits and Advances: -**

Table 4.3 contains data pertaining to the volume of deposits and advances of RRBs and their advance deposit ratio for the period from 1979 to 1996. The data shows that 57 RRBs reported a total deposit of Rs. 123 crore on December 1979 while their total advances amounted to Rs. 167 crore as on that. The average deposits of RRBs were Rs. 2.16 crore while their average advances stood at Rs. 2.93 crore as on that date. As on March 1996, the total deposits of 196 reporting RRBs stood at Rs. 14187.90 crore and their total advances amounted to Rs. 7505.02 crore. The average deposits of RRBs was Rs. 72.38 crore and their average advances amounted Rs. 38.29 crore as on date. These data reveal that there has been a considerable expansion in the operation of the RRBs in the country not in terms of geographical coverage but also in terms of deposits mobilised and in terms of advances made by them. The simultaneous increase in the branches (except decrease in some of the last years) in the country and in the average volume of deposits mobilised and in the average volume of advances made by them during the period under review shows an extensive as well as an intensive expansion in the operations of the RRBs in the country.
It can also be observed from the data that the RRBs have made appreciable progress in deposit mobilisation. It is also encouraging to note that the percentage ratio of advances to deposits of these banks has been steadily decreasing over the period from 135.8 percent in 1979 to 52.9 percent in 1996. This indicates the increasing deposit mobilisation effort made by these banks and their attempt to meet the credit needs of their customers from local resources mobilised through deposits.

**Advances:**

The purposes for which the RRBs extend credit facilities can be understood from the data contained in Table 4.4. The RRBs extend financial assistance to such purposes like agricultural operations, allied agricultural activities, rural artisans, village and cottage industries, retail trade and self employment projects, consumption and for other purposes. The total advances made by the RRBs for agricultural purposes amounted to Rs. 2569 crore as on March, 1996 and formed 34.2 percent of their total advances of Rs. 7511 crore on that date. Allied agricultural activities received 12.4 percent of the total advances and the advances made for retail trade and self-employment projects formed 24.5 percent of the total. Advances made to village artisans and cottage industries formed only 7.8 percent of the total. As part of the endeavour to create a level playing field in respect of priority sector credit dispensation, effective from April 1, 1997, advances of RRBs to priority sector have been placed on par with commercial banks at 40 percent of outstanding advances. Out of this overall
target of 40 percent; advances to weaker sections of the society should be 25 percent (10 percent of total outstanding advances). This shows that the weaker sections of the rural society in consonance with the basic objective of these banks.

Another aspect of the functioning of the RRBs is their participation in Integrated Rural Development Programme in the Country. As per the Reserve Bank of India, "during the year 1996-97, banks assisted 18.89 lakh beneficiaries under the IRDP scheme. Of these 8.87 lakhs belonged to SC/ST categories (46.7 percent) and 6.35 lakhs were women (33.6 percent).

**Refinance Facilities from the NABARD**

From the data presented in Table 4.3 it can be seen that the total advances of the Regional Rural Banks exceeded their total deposits during the initial years for which the data are presented in the Table. The RRBs can meet such a situation only if they are provided with the required refinance facilities from the higher financing institutions. As the credit deposit ratio of many RRBs is high, the RBI and subsequently NABARD evolved refinance policy to supplement the resources of RRBs. Under the Refinance Scheme for the RRBs introduced in October 1976, the RRBs were enabled to obtain refinance from the RBI later on from NABARD at a rate of interest which was fixed 2 percent below the Bank Rate and with in over all refinance limit fixed for each RRB on the basis of a prescribed formula. The sponsor Banks also provide refinance facilities to the RRBs.
Besides the provision of refinance facilities, the NABARD, after its establishment, took over from the Reserve Bank the responsibility for laying down policies for RRBs, overseeing their operations and attending to the problems faced by them. All work relating to the establishment of RRBs, administration or refinance scheme, formulation of appropriate operational policies for RRBs, monitoring their performance, liaising with the RBI in regard to branch expansion and the statutory inspection of RRBs is now undertaken by NABARD instead of the Reserve Bank of India.

**Certain Problems:**

Having analysed the objective, nature and functions of the RRBs and the progress made by them till 1996, the following will now be devoted to a discussion of certain problems and issues involved in the functioning of the RRBs in the country.

(i) **Need for Regional Rural Banks** - Since the nationalisation of the fourteen major commercial banks in India in 1969, commercial banks were asked to expand their activities into the rural areas of the country on a large scale by opening branches in the rural areas and by using an increasing portion of their resources for lending to agriculture and other rural economic activities, in addition to the activities of the Co-operative credit institutions and the measures adopted to strengthen the Co-operative credit movement in the country. Doubts were, therefore, expressed about the need for another type of credit institution to cater to the needs of the rural areas in the country.
The Review Committee, popularly called the Dantwala Committee, set up by the RBI in 1977, examined the issue while reviewing the functioning of RRBs in the country. The committee came to the conclusion that the RRBs have a definite role to play in the rural banking system of the country and that within a very short period they developed "their image as a new type of institution catering to the credit needs of a class of borrowers to whom institutional credit was hitherto not available", and that they can became a very useful component in the totality of rural credit structure in the country. According to the committee, the advantages of the RRBs as credit institutions in catering to the needs of the weaker sections of the rural community are its low cost of operation, its simplicity and low profile, local participation in the management, feel and familiarity of the local staff, and the close association of district level agricultural and rural development agencies.

(2) Viability: - The Dantwala Committee examined the issue of viability of the Regional Rural Banks. The Committee pointed out the need to increase the loan business of the Regional Rural Banks in order to make them viable and suggested that a loan business Rs. 3 crore, as against the then average loan business of Rs. 47 lakh of a bank, would be necessary in order to enable a regional rural bank just to reach the break-even-point. The committee observed that the financial results of the working of some of these banks do so that RRBs have, a potential and capability to attain financial
viability and become a profit making institution at a level of business of about Rs. 3 crore, which could be expected to be reached in about 3 to 4 years.¹²

A study on RRBs, undertaken by the Agricultural Finance Corporation, has pointed out that RRBs resort to heavy borrowing from sponsor banks at higher interest rates just to meet their loan obligation under IRDP. It has suggested that sponsor banks should encourage RRB to participate in an increasing manner in NABARD, assisted area-based scheme such as IRDP etc. The Kelkar committee (1986) reviewed the working of RRBs. It observed that, however to ensure that the large borrowers do not prompt the bulk of loanable funds of the RRBs and the RRBs retain their distinct mark of as the bank of a small man we suggest that at least 60 percent of the loan advanced by the RRB should be remarked for the benefit of small farmers, rural artisans and other rural poor."

According to the criterion developed by the Reserve Bank of India,"a bank is said to be viable if it attains a level of loan business giving it an income level which would enable it to meet not only all the expenses but also help it build a minimum reserve over a period of time. In this broader sense, the viability level of its loan business could be a range and not a fixed figure. Besides, viability may be achieved at a lower level of business if the coverage of area is small and overheads by way of branch expenses are low. But in the case of a RRB covering a district or two, it is expected to open 75-100 branches in its area of operation and such its viability has to be judged on the basis of spread it has to achieve. Thus a RRB which is found
to be viable with 10 branches may become non-viable when it opens more branches till it succeeds in building up adequate business commensurate with the number of branches. This aspect has to be kept in mind in assessing the performance of RRBs from the angle of viability.\textsuperscript{13}

As a solution of this problem, the Narasimham committee laid down that “the level of credit to the target group should be maintained as it had obtained during the year 1989-90.”\textsuperscript{14} The Narasimham Committee on financial system, set up by the government in 1991, felt that in order to impact viability to their operations, the RRBs should be permitted to engage in all types of banking business, although their focus should continue to lend to the target groups. When this is accepted, the RRBs may be able to function on commercial lines.

According to the working group on Rural Banks (1955) the viability of a RRB has to be judged keeping four diversions in view, namely,

(i) **Area Dimension**  
(ii) **Financial Dimension**

(ii) **Time Dimension**  
(iv) **Task Dimension**

(i) **Area Dimension:** - In its area dimension, the viability of a RRB is related to the prospects of development in an area. The working group observed that “This attempt at relating the institution of regional banks to areas which promise development of regional banks to areas which promise development also holds, in our view, the key to the problems of viability of these institutions.
(ii) **Financial Dimension:** - With regard to the financial dimension of viability, the working group observed that “the concept of viability is a function of two variables, namely the expenditure ratio and the low level of income earned by the institution. As regards the expenditure ratio, it is fundamental to one approach that the regional rural banks should work on a low cost budget in respect of staffing pattern, salary scales and other establishment expenditure. With regard to income, the working group has observed that our approach stresses equally the importance of these banks increasing the level of local deployment of funds, even as an aspect of viable operations. If these banks, instead of transferring their locally obtained funds to the central money markets, were to use them for effective and efficient disbursement of rural finance not merely would they be serving the larger social purpose but they would also be making progress toward their own viability as their own income would thus be higher.

(iii) **Time Dimension:** - Time dimension of viability implies the need of a RRB for a period of few years to attain a stage of viability on account of the local constraints under which it has to work and the lack of possibility for a RRB to make good the loss suffered by one of its rural branches by the profit earned by its urban branches as in the case of commercial banks. Since the RRBs work in rural areas only it will take some time for a RRB to build up sufficient business for attaining viability.
(iv) **Task Dimension** :- According to the working group "A discussion on viability tends generally to be in financial terms. For a financial institution, it is indeed appropriate that it be so. However, where the objective of the type of financial institution is socio-economic, an initial period of financial loss may well be a price worth paying for the achievement of the larger social objective of widening the area of credit coverage. Indeed the success of these banks should be judged as much by their efforts at expanding and extending the area of rural credit as by the conventional yardsticks of profitability. In other words, the problem of viability can be approached from the task dimension angle as well.15

The working group, set up by the RBI in 1995, has recommended that RRBs be allowed to do consortium lending along with the commercial banks in urban areas to improve their balance sheets. The working group has also discussed the possibility of making it mandatory for private sector banks to support loss making RRBs as a pre-condition for opening new branches in major metros.16

(3) **Profitability**: - Closely connected with the issue of viability is the question of profitability of a Regional Rural Bank. The efficiency of the operations of a commercial bank is traditionally judged on the basis of its profitability. But, considering the basic objectives for the attainment of which the RRBs are set up in the country, the efficiency of the operations of the RRBs is to be judged not in terms of the profit that is earned annually by a
RRB, but in terms of the extent to which it has succeeded in providing banking facilities to the weaker sections of the rural community and the extent to which these sections of the rural community are helped in improving their own living conditions.

4) Interbank Comparisons: - Another related issue arised in the context of the interbank comparisons of the viability, profitability and efficiency of rural banks. Since the functioning of a RRB is confined to a particular region, its viability, profitability and efficiency are closely linked with the economic conditions of that region and the prospects of economic development in that region. A RRB working in backward region with limited development potentialities is bound to be less efficient in terms of its viability and profitability than a RRB which is functioning in a region which has a greater potential for economic development. Hence, while comparing the performance, a RRB with that of another due consideration should be given to the differing economic conditions and differing potentialities for development in the regions in which the banks are functioning. From the above discussion of the nature, functions and working of the Regional Rural Banks in the country, and of the progress made by them since their inception in 1975, it can be observed that the Regional Rural Banks have been rendering a very important service to the Indian economy by extending banking facilities to the weaker sections of the rural society and thereby enabling the people belonging to such sections to increase their levels of income and improving their standards of living. A field study on the quality of
lending by RRBs revealed interalia that the basic aim of setting up RRBs had been largely achieved and that they had successfully maintained their image as a small man's bank by confining their credit facilities to the target groups.

REFERENCES

3. Reserve Bank of India; *The Regional Rural Banks Ordinance*, 1975, P. 61.


