REGIONAL RURAL BANK: AN INTRODUCTION, PERFORMANCE AND ACHIEVEMENT OF SOCIAL OBJECTIVES, MANAGEMENT & FUNCTIONING

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Abstract
To understand the role played by the Regional Rural Banks (RRBs) in expanding the rural credit. The background and the need of setting up of RRBs, Objectives of RRBs, Special features of RRBs. Regional Rural Banks with a holistic approach of rural development through the rural credit, faced many ups and downs during the last four decades. To provide knowledge about the various stages of the progress of RRBs during the four phases: Expansion Phase, Declining Phase, Turn around Phase & Consolidation Phase. An analytical view, based on various statistics has been discussed along with the observations and recommendations of various Committees and Working Groups set up for bringing about an improvement in the working of RRBs. This may help one to gain insights into the journey of RRBs through the above phases which was not easy and their survival could take place only with the strong will of Government of India, realizing their contribution to the rural economy. The role of various stake holders in the proper functioning of the Regional Rural Bank and facilitate the readers to acquaint with the role of various apex level financial institutions and the Governments in respect of controlling and reviewing the performance of RRBs.

***Keywords**: RRB: Regional Rural Bank, RBI: Reserve Bank of India, NABARD: National Bank for Agriculture and Rural Development, IBPS: Institute of Banking Personnel Selection, GOI: Government of India, NRBI: National Rural Bank of India, ACRC: Agriculture Credit Review Committee, ECRC: Expert Committee on Rural Credit, ADFI: Agriculture Development Financial Institutions, ODI: Organisational Development Institution, DAP: Documents Against Payment, MOU: Memorandum of Understanding, BOD: Beginning of the Day, EC: Empowered Committee, GCC: General Purpose sCredit Card, ICT: Information and Communication Technology, FIF: Financial Inclusion Fund, SHG: Self Help Group, NPA: Net Performing Asset, SHPI: Self Help Promotional Institutions, FITF: Financial Institution Technology Fund.*

Introduction
In February, 1969, Government of India appointed the Banking Commission, with a view to making a comprehensive review of the structure and operation of commercial banks. Although the multi-agency approach was adopted for enhancing rural credit, the Banking Commission in the year 1972, observed that despite the massive expansion of network of Commercial bank in the rural arears, a vast segment of the rural population comprising of weaker sections and economically backward classes were deprived of banking facilities as their requirements were insignificant and financing them by commercial banks was perceived to be a non-viable proposition. The Commission felt that an alternative credit delivery mechanism by the way of setting-up of specialized banks, particularly to cater to rural segment of the population, could be explored by the Government.

The Banking Commission suggested various measures for re-organizing the Commercial banking structure, for improving its functions. The Commission, in its report, proposed the setting –up of "Rural Banks" for meeting the needs of rural credit and for developing banking habits all over the country. But, no action was taken by Government of India up to June 1975, for setting-up of such type of financial institutions, for providing rural credit. The Government of India appointed a Working Group on "Rural Banks' on July 1st, 1975, under the Chairmanship of Shri M. Narasimhan, the then Additional Secretary, in the Ministry of Finance. The Group felt that need for setting –up of State sponsored, Region based, Rural oriented Commercial banks, which would blend the rural touch, local feel and familiarity with rural problems, with a low cost profiles, as possessed by co-operatives and induce professional discipline, ability to mobilize resources, by way of deposits and access to money markets, on the line of Commercial banks. Till the birth of RRB's in India, branches of commercial banks and co-operative banks in thousands were operating in the rural areas. Despite of such large network of bank branches, the credit needs of rural India were not met adequately. The proposed institutions were expected to plug to gap created in extending the credit to rural areas by largely urban-oriented commercial banks and the rural co-operatives, which have close contract with rural areas but fall short in terms of funds.

The new institutions were visualized as hybrids of commercial banks and co-operative banks to supplement the efforts of the existing rural financing institutions. It was primarily aimed at financing small and marginal farmers, landless labourers, rural artisans, small traders and weaker sections of rural society. The Narasimhan report was submitted on July 31, 1975, which was in favour of setting up of "rural banks". The Government of India accepted the recommendations of this working group. Regional Rural Banks ordinance was promulgated by President of India, on September 26, 1975. The ordinance was subsequently replaced by the Regional Rural Bank Act 1976, dated February 9, 1976.

Mission

> ***"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 the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs and for matters connected therewith and incidental thereto".***

Inception of RRB's can be seen as a unique experiment as well as experience, in improving the efficacy of rural credit delivery mechanism in India. With joint shareholding by Central Government, the concerned State Government and the sponsoring bank, an effort was made to integrate commercial banking system with the broad policy thrust towards social banking, keeping in view the local peculiarities.

RRB's were expected to play a vital role in mobilizing the savings of the small and marginal farmers, artisans, agricultural labourers and small entrepreneurs and inculcate banking habits amount the rural credit structure. The main goal of establishing regional rural banks in India was to provide credit to the rural people who are not economically strong. Since inception, regional rural banks have taken deep roots and have become a sort of inseparable part of the rural credit structure in India. Regional Rural Banks have been in existence for around four decades in the Indian financial scene. RRB's can be traced to the need for a stronger institutional arrangement for providing rural credit, as a new set of regionally oriented rural banks, which would combine the local feel and familiarity of rural problems, characteristic of cooperatives with the professionalism and large resources base of commercial banks, with a commercial orientation. Credit is one of the most urgent aspects to make rural development strategies and programs successful and with this reason, the Regional Rural Banks were established.

Five Regional Rural Banks (RRBs) were set up on 2nd October, 1975, on the birthday of Mahatma Gandhi. The first five RRB's were

1. Haryana Kshetriya Grameen Bank, Haryana.
2. Jaipur Nagaur Anchalik Grameen Bank, Rajasthan.
3. Gaur Grameen Bank, West Bengal.
4. Prathama Bank, Moradabad, UP.
5. Gorakhpur KshetriyaGrameen Bank, UP.

After passing the Regional Rural Bank Act, 1976, several other RRB's were established in different regions of India. The number of RRB's increased to 196 by the end of 1987. The merger plan implemented during 2006-08 has reduces it to 56 as on 31 March, 2015.

Objectives

The RRBs have following objectives:

a. To make credit available to rural households for agriculture and allied activities.
b. To reduce the dependence of weaker sections, consisting of small and marginal farmers, Agricultural labourers, Artisans, Small entrepreneurs, on the private money lenders.
c. To open branches in unbanked rural areas, particularly, in the economically backward areas including tribal areas.
d. To mobilize rural savings and channelize them, for supporting productive activities in rural areas.
e. To supplement the other institutional agencies in credit delivery, to rural areas.
f. To develop rural economy.

Salient Features of Regional Rural Banks

1. **Establishment:** Unlike other commercial banks, a RRB needs a sponsor bank, for its establishment. Any public sector bank or private sector banks may sponsor a RRB, as per permission granted by the Central Government on its request. A notification in the Official Gazette is issued which contains the name of the new RRB and the name of the State and the districts with in which it will operate.
2. **Specific area of operation:** A RRB can open its branches and operate only in the jurisdiction of such districts which have been notified by the Central Government. It also keeps in Head Office in its operational area only. Branch expansion is done, as per the specific Branch Licensing Policy of RBI prescribed for RRBs.
3. **Capital:** As per the Regional Rural Banks Act, 2015, enacted by the Parliament in the year 2015, the authorized share capital of a Regional Rural Bank shall be a t Rs.2000 crore, divided into Rs.200 crore of fully paid share of ten rupees each. As per the RRB Act, out of the capital issued by a RRB, 50 percent is to be held by the Central Government, 15 percent concerned State Government and 35 percent by the Sponsor Bank. However, the amendments carried out to the Act, in the 2015, provides for raising share capital from sources other than the Central Government, State Governments and Sponsor Banks. In such a case, the combined shareholding of the Central Government and the Sponsor Bank cannot be less than 51 percent. Further, if the level of shareholding of the State Government in the RRB is reduced to less than 15 percent of the paid up capital, on account of raising share capital from sources other than Central Government, State Government and Sponsor Bank, prior consultation with the State

Government by the Central Government is essential and mandatory.

4. **Scope of Business:** A RRB can transact any business of banking in its operational area, as defined in clause (b) of section 5 of the Banking Regulation Act, 1949. Initially, during 70s and 80s, RRBs were confined only to accepting deposits and lending to agriculturistsand weaker sections of the society, in rural areas. A certain loan limit was also prescribed. Subsequently, their scope of business was enlarged gradually and today, RRBs can do all types of business which a commercial bank is doing, except forex business, which can do only to a limited extent.
5. **Staff of RRBs:** The requirement of staff strength in a RRB is decided by the Board of Directors, as per the policy prescribed by the Central Government and its staff are recruited with the assistance of Institute of Banking Personnel Selection (IBPS). In case of need, staff may also be deputed from sponsor bank, as per the policies framed by the Central Government. The Chairman of a RRB is appointed by sponsor bank with the consultation of NABARD and approval of the Government of India.

Expansion Phase (1975 – 1986)

Based on the Narasimham Committee recommendations, the first five RRBs were established on 2nd October, 1975, under a Presidential Ordinance. By December 1979, 60 RRBs were established with 2,420 branches, having total deposits of Rs.123.22 crore and loan outstanding of Rs.161.41 crore. A committee under the chairmanship of Prof. Dantwala examined the need for RRBs and their relevance in 1979, which endorsed the need for intensification of the process, by covering more and more geographical areas under services of RRBs. Following the recommendations of the above Committee, the tempo in setting up of RRBs gained momentum and 85 RRBs were set up by the end of December 1980 with 3279 Branches. By December 1987, 196 RRBs with 13,353 branches came into being, with deposits amounting to Rs.2305.82 crore in 224 lakh accounts and loans of Rs.2232.26 crore in 93 lakh accounts. During this expansion phase the following committees took a review of the functioning of RRBs.

- Dantwala Committee, 1978.
- Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD,1981)
- Kelkar Committee, 1984.

Decline Phase (1986 - 1994)

Although RRBs had a rapid expansion of branch network and increase in volume of business, these institutions went through a very difficult evolutionary process, due to the following problems;

a. Very limited area of operations.
b. High risk, due to exposure only to the target group
c. Public perception that RRBs are poor man's banks. Mounting losses due to non-viable level of operations in branches located at resources – poor areas.
d. Switch over to narrow investment banking, as a turnover strategy
e. Heavy reliance on sponsor banks for investment avenues, with low return
f. Barring exceptions, step- motherly treatments from sponsor banks
g. Chairman of RRBs under the direction of Regional Managers appointed as Board of Directors by sponsor banks
h. Burden of Government subsidy schemes and inadequate knowledge of customers, leading to low quality assets

i. Unionized staff, with low commitment to profit orientation and functional efficiency
j. Inadequate skills in treasury management for profit orientation
k. Inadequate exposure and skills to innovate products, limiting the lending portfolios
l. Inadequate effort to achieve desired levels of excellence in staff competence, for managing the affairs and business, as an independent entity
m. Serious undermining of the Board b compulsions to look up to sponsor banks, Government of India, NABARD and RBI, for most of the decisions.
n. RRBs growth hampered by an across the board ban on recruitment of staff.

All the above factors led to most of the RRBs eroding their capital base and in many cases, the depositor's funds.

- Agricultural Credit Review Committee (ACRC, 1989)
- Narasimham Committee, 1991.
- Bhandari Committee, 1994.

Turn-Around Phase (1995 - 2005)

The Government of India embarked upon banking sector reforms in 1991. As a part of the reform process, measures for strengthening various credit delivery systems were initiated. For RRBs, which were financially in very bad shape, various options like formation of National Rural Bank of India, merger of RRBs with their sponsor banks, etc. were examined. Considering the important role played by RRBs in dispensation of credit in rural areas, especially to the weaker sections of society, the continuance of the RRBs was found to be relevant. The Government of India, in consultation with RBI and NABARD decided to recapitalize the weak RRBs, in order to improve their financial health. Following the above decision of GOI, Bhandari Committee and Basu Committee looked into the issue in depth and came out with rehabilitation packages, consisting of both financial and non-financial components. Under the financial package, a sum of Rs.2188 crore was provided by the shareholders of RRBs in the proportion of their equity holding during the period 1994-200 for cleansing the balance sheet of 187 RRBs. Under the non-financial package, the following balance sheet of 187 RRBs financially viable, on a sustainable basis:

a. RRBs, which hitherto were financing only target groups, allowed financing non-target groups.
b. RRBs were permitted to subscribe to the Tier II bonds of sponsor banks or other institutions up to 10% of their owned funds.
c. RRBs were permitted to open / maintain non-resident rupee accounts.
d. RRBs were allowed to finance housing and education loan.
e. Introduction of DAP / MOU and monitoring of implementation.
f. HR Development through massive training inputs by NABARD.
g. Conduct of ODI as a tool for corporate turnaround.
h. Exposure visit to good institutions in the country and aboard.
i. Rationalizations of Investment Pattern.
j. Innovative financing through SHGs – Acting as SHPIs.
k. RRBs shifted from narrow banking to credit disbursements.

The following committees were set up for reviewing the performance of RRBs and also recommending the steps for revitalizing these banks, during this phase.

- Misra Committee, 1995.
- Basu Committee,1996.
- Thingalaya Committee, 1997.

- Narasimham Committees, 1998.
- Agarwal Committee, 2000.
- Expert Committee on Rural Credit (ECRC, 2001)

Consolidation Phase (2006 - 2011)

The Advisory Committee on Flow of Credit to Agriculture and Related Activities in June 2004 recommended restructuring of RRBs, in order to improve the operational viability of RRBs and take advantage of the economies of scale. The recommendation of this Committee were as under:

1. Mandate of RRBs has to continue, even as they need to be restricted into viable financial institutions, simultaneously retaining their regional character and rural tours.
2. All RRBs in the North Eastern States be merged into a Zonal bank on standalone basis, the equity of which is to be provided by NABARD, State Bank of India and United Bank of India in the ration of 26:37:37 through a holding company. The newly constituted bank will function independently with CEO and a BOD and will be delinked from the sponsor banks.
3. A two-step amalgamation of RRBs for the rest of the country, under first step, all the RRBs of a sponsor bank in a state would be amalgamated into a single unit. Sponsor bank and NABARD will contribute to the equity of the RRB through a holding company, in the ratio of 26:74. Under second phase, state level rural bank will be formed by amalgamating all RRBs. Thus 20 state level rural banks will emerge after the second phase.
4. The State / Zonal RRBs may be permitted to seek cheaper funds through issue of certificate of deposits.
5. Income tax exemptions granted to RRBs be continued to the newly formed State / Zonal RRBs.
6. RRBs Act, 1976 may be repealed and replaced by new Act, with suitable provisions for functional autonomy to the restructured RRBs and professionalized management and Board of Directors Prof. V.S. Vyas had recommended the amalgamation of RRBs into State level institutions, as it felt that:
   (a) The process of amalgamation would lead to significant reduction in cost of administration and economic of scale.
   (b) With increasing competition in the rural financial markets, particularly from the private sector commercial banks and sponsor banks, the income of RRBs, which are essentially localized units, is likely to decline, threatening the sustainability of RRBs.
   (c) By contrast, amalgamation would lead to enhanced coverage of geographical areas and the improved outreach of such amalgamated entities would enable them to ramp up growth, by diversifying business portfolios.
   (d) Amalgamation would further result in efficient and optimum utilization of the financial and non-financial resources, due to a combination of synergy and transaction costs sharing potentials.
   (e) Amalgamation would lead to rationalization of staff and their need based allocation and redeployment.
   (f) Besides, the inter district transferability potential can improved the prevailing ‘not so exemplary’ work culture.
   (g) Consolidation can lead to creation of a number of modest and medium-sized banks, which will no longer remain tiny banks, with little means.

(h) State-wise consolidation of banks has the potential to unleash considerable synergies, in terms of manpower deployment and fund resource manoeuvrability, initiation to new product launches, especially those driven by technologies, like internet banking, remittance transaction cost savings, etc., in the long term. The larger area of operations consequential to consolidation also provides considerable leverage in profit and viability prospects of RRBs, due to their ability for cross-transfer of business risks across different regions of operational areas and sectors.

Further, the Group of CMDs of select Public Sector Banks, 2004 recommended the amalgamation of RRBs on regional basis into six commercial banks-one each for the Northern, Southern, Eastern, Western, Central and North-Eastern Regions. Thus, one finds that a host of options have been suggested starting with vertical merger, horizontal merger no liquidation, by different committees that have gone into the issue of financial viability and restructuring strategies for RRBs.

The Sardesai committee held that 'to improve the operational viability of RRBs and take advantage of the economies of scale, the route of merger / amalgamation of RRBs may be considered, taking into account the views of the various stakeholders'. Merger of RRBs with the sponsor bank is not be a desirable way of restructuring. The Committee was of the view that merging a RRB with its sponsor bank would go against the very spirit of setting up of RRBs as local entities for providing credit primarily to weaker sections. Having discussed various options for restructuring, the Committee was of the view that 'a change in sponsor banks may' in some cases help in alia; improve the competitiveness, work culture, management and efficiency of the concerned RRBs.

Finally, after review the above recommendations, Govt. of India allowed RRBs sponsored by the same bank within the same State to be amalgamated in a phased manner. In the year 2005, a process was initiated for the structural consolidation of RRBs sponsored by the same bank with in a State.

- Sardesai Committee, 2005.
- Dr. K.C. Chakrabarty Committee, 2010.

Post Amalgamation Status

Post amalgamation, the number of Regional Rural Banks was reduced to 56 as on 31 March, 2015, with a network of 20,059 branches covering 644 notified districts in 26 States and the Union Territory of Puducherry. The financial and the business levels of the RRBs as a group have increased consequent to the amalgamation of the banks. The deposits of RRBs increased substantially over the years and stood at Rs.2,71,329 crores as on 31 March, 2015. The aggregate loans and advances outstanding with RRBs improved to Rs.1,84,843 crore as on 31 March, 2015.

During the year 2014-15, out of 56 RRBs, 51 have earned aggregate profits to the tune of Rs.2958 crore and 5 RRBs reported losses amounting to Rs.177 crore. Total 47 out of 56 banks are considered sustainably viable in as much as they are earning profits and not carrying any accumulated losses in their books. The recovery performance of RRBs as a whole stood at 79.5 percent as on 30th June 2014. The aggregate gross NPA of all RRBs stood at 5.72 percent.

The amalgamation of different banks of the same sponsor bank in a state helped the combined entity, to increase the business and profit. Besides the banks have been permitted to open branches at taluka headquarters also. Increase in competency of the staff, management quality, support from the sponsor banks and NABARD, through refinance at concessional rate of interest, comparatively large share of low cost deposits, lower operational cost, expertise acquired in asset management, etc. were instrumental in the growth of net profit of RRBs. The RRBs, over the years have made impressive strides on various business indicators.

Stakeholders of a Regional Rural Bank

The real stakeholders of the rural banks are the rural population, who use the services of the rural banks, including those who can potentially avail of their financial services. The RRBs play a crucial role in financial inclusion. Rural banks are required to provide comprehensive financial services to the rural people. The financial services are not to be interpreted only as credit, but include flexible savings products, safe remittance facilities with in India and aboard, receipts from and payments to governments and utility service providers, insurance products, guarantees, debit / credit cards, investment channels and information on farm inputs, technology, markets, etc. RRBs functions through its Head Offices and branches in the notified operational area. The Chairman of the bank is responsible for all the affairs of the bank. He gets instructions from the Board of Directors and the Sponsor Bank, keeping in view the policy and operational guidelines issued by NABARD and, the policy and program perspectives, of the State / Central Governments.

Board of Directors

A RRBs transacts its business, as per the direction of the Board of Directors. The policies of Central Government, Reserve Bank of India, NABARD and Sponsor Bank are put up before the Board for its approval. Therefore, the general superintendence and management of the affairs and business of a RRB vest in the Board of the bank concerned. The Board of directors consists of the Chairman and the following members, namely:-

1. Two directors are nominated by the Central Government, provided that no person shall be nominated as director, if he is already a director on the board of any other Regional Rural Bank.
2. One director, who is an officer of the Reserve Bank, is nominated by that Bank.
3. One director, who is an officer of an officer of the NABARD, is nominated by that bank.
4. Two directors, who are officers of the Sponsor Bank are nominated by the Bank.
5. Two directors, who are officers of the concerned State Government, are nominated by that Government; and
6. Such number of directors elected by the shareholders other than the directors nominated by the Central Government or the State Government, whose names are entered in the register of shareholders of the RRB at least ninety days before the date of the meeting.

Role of Various Financial Institutions in the Functioning of RRBs

1. **Role of the Central Government:**The Central Government has absolute powers in respect of incorporation of a RRB, subscribing to its capital, appointing two directors on the board, notifying various rules and regulation for board meetings, appointments and promotions, staff regulation, determining remuneration and service conditions of the staff and officers, appointing auditors and fixation of their remuneration, giving direction to RRBs and notification thereof and placing the working results / activities of the RRBs in both Houses of Parliament. In exercising such powers, the Central Government seeks the expertise and services of NABARD, which also maintains the database on RRBs.

2. **Role of Reserve Bank of India:**Reserve Bank of India is the Central Bank of the Country. It performs a wide range of promotional functions to support national economic policy objectives. It is the Regulator and Supervisor of the financial system functions, so as to ensure stability. As per the provisions of the RRB Act, 1976, RBI represents the GOI on the boards of RRBs. RBI has also constituted Empowered Committee (EC) for RRBs on a State-wise basis.
3. **Role of Sponsor Banks:** Sponsor Banks besides sponsoring the RRBs, subscribe to 35 percent of the equity. The sponsor banks have to aid RRBs, by providing management and financial assistance. Sponsor Banks also appoint Chairman from among their own officers or otherwise, nominate two directors to the Board of the RRBs and depute such number of officers and employees, as may be necessary, for smooth functioning of RRBs. The Sponsor Banks provide refinance support to RRBs and help in maintaining liquidity.
4. **Role of State Government:** Though the State Governments have only a smaller holding of 15 percent, they have a greater stake in the banks, as these banks play a significant role in implementing various credit-linked development schemes. The State Governments nominate two directors each to the Boards of RRBs functioning in the States. The State Government is expected to assist RRBs in their smooth functioning and facilitate the recovery of loans.
5. **Role played by NABARD:** Though not a shareholder, NABARD is also a stakeholder in RRBs NABARD assists the Central Government, in relation to all its functions pertaining to RRBs. It provides policy inputs and has representation on the Board of Directors on behalf of GOI. NABARD provides concessional refinance support to augment the resource base of RRBs, for lending to the desired sectors as also to enhance liquidity. NABARD has been playing a significant role in human resource development of the RRBs by imparting training to RRB officers, conducting Organizational Development Initiatives (ODIs) and exposure visits with in the country and abroad. NABARD extends help to the RRBsin all matters relating to its operational problems, business development, micro-finance, policy thrust, etc. NABARD has also been entrusted with the job of statutory supervision of the RRBs by way of conduct of offsite surveillance and onsite inspections. NABARD conducts inspection of RRBs under section 35 of Banking Regulations Act, 1949 on periodical basis. Annual Reports of RRBs are sent by NABARD to the Government of India for placing the same before the Parliament. NABARD has been entrusted with the job of Supervisory functions over the rural financial institutions.

Conclusion

The Banking Commission in the year 1972, observed that despite the massive expansion of branch network of commercial banks in the rural areas, a vast segment of the rural population comprising weaker sections and economically backward classes were deprived of banking facilities as their requirements were small and financing them by commercial banks was perceived to be a non-viable proposition. The commission felt that an alternative credit delivery mechanism by way of setting up of specialized banks, particularly to cater to these segments of the population, could be explored by the Government. Based on the recommendations of Narasimham Committee, which gave its report in 1975, the Government of India decided to set up Regional Rural Bank (RRBs). Five RRBs started functioning from 2nd October, 1975. Regional Rural

Banks have been set up with a view to developing 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 the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected there with and incidental thereto. The number of RRBs increased to 16 by the end of 1987. Subsequent to the policies pursued for merger and consolidation of RRBs across the country, the number of RRBs as on 31st March, 2015 stood at 56. The Regional Rural Banks Act, 1976 contains all provisions for the proper functioning of RRBs and its supervision by NABARD and RBI as a regulator. Certain amendments have been carried out to the Regional Rural Banks Act, in the year 2015, in relation to capital structure and management, keeping in view the need for the growth and development of these banks.

The role of Regional Rural Banks in fulfilling the credit needs of rural population has been appreciated by its stakeholders as well as various committees / working groups set up review their functioning. The number of RRBs which increased from 5 to 196 during expansion phase from 1976 to 1986 showed the willingness of Government of India and the concerned State Governments looking to its objectives. The reasons of declining situation of RRBs from 1986 to 1994 were mainly due to the restrictions put on RRBs in regard to the scope of business which they could undertake. These restrictions were removed gradually during turn-around phase of 1975 to 2005. RRBs were allowed to undertake all sort of business which a rural branch of a commercial bank was already doing. Various recommendations of Committees pointed out the need of increasing the size of RRBs to make them economical viable. With this view, the "merger" of RRBs took place during 2006 to 2010. The recapitalization support based on the recommendations of the Dr. K. C. Chakraborty Committee for improving the financial strength of the banks has helped many RRBs. The policies pursued by Government of India for merger and amalgamation of banks promoted by the same sponsor banks in a state has helped the RRBs to widen their outreach and business, leading to improved working results of these organizations. Today, some of the merged RRBs have more branches and provide competition to commercial banks in rural areas. With most of the RRBs having computerized their operation and implementing the Core Banking Solutions (CBS), their level of business is expected to improve further, in the years to come.

The role and powers of Government of India, Reserve Bank of India, Sponsor Banks and the concerned State Government have specified in the RRB Act, 1976. Various provisions of RBI Act, 1934 and Banking Regulation Act, 1949 are also applicable on RRBs. Besides, Government of India has also issued various directives from time to time as applicable on RRBs as per recommendations of NABARD and RBI. All Circular instructions relating to RRBs are issued through NABARD. Annual Report of all RRBs is put up to the parliament through Govt. of India. Union Finance Minister holds periodical meetings with the Chairmen of RRBs to take stock of their workings and seeking suggestions for remedial actions. The role of RBI as regulator and NABARD as a Supervisor has been clearly defined. Similarly, the overall responsibility of a sponsor bank in regard to the proper functioning of RRB has also been well documented. The participation of State Government is done through the nominated directors on the Boards of respective RRBs in a State and their related polices are being implemented through RRBs. Reserve Bank of India has liberalized branch *licensing policies to facilitate the RRBs to widen their outreach and augment the volume of business.*

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